ENCYCLOPAEDIC DICTIONARY OF ECONOMICS

(Volume Two)

N.B. GHODKE

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CONTENTS

PREFACE

"Economics seems to apply to every nook and cranny of human experience". (*Robert A. Mundell*). "Some study of economics is at once a practical necessity and a moral obligation, for economic questions touch the daily lives of all". (*Henry Clay*). Thus, *Encyclopaedic Dictionary of Economics* which is the first of its kind in the entire literature of economics, has been prepared so as to be useful not only to under-graduate and post-graduate students of economics, teachers of economics, research scholars and economic writers, but also to economic administrators, policy makers, businessmen, statesmen and the enlightened public whose opinions influence the formulation of national and international economic policies.

The *Dictionary* covers every important economic pronouncements said from the pre-Aristotlean days to the present (1984 Economics Nobel Prize winner Dr. Richard Stone). In other words it encompasses all the schools of economic thought *viz.*, ancient economic thought, mercantilism, physiocracy, classical school, neo-classical school, modern school and neo-modern school. The *Dictionary* for the first time also covers ancient, medieval and modern *Indian* economic thought, and economy.

"Economics is an unfinished science". (*F. Zuethen*). It is growing at a staggering rate both vertically and horizontally. The present work, accordingly, covers with its 3258 entries, the following branches of economics :

(1) History of economic thought, (2) Theory of value, (3) Monetary economics, (4) Public finance, (5) International economics, (6) Business cycles, (7) Mathematical economics, (8) Statistics, (9) Econometrics, (10) Welfare economics, (11) Economic history, (12) Agricultural economics, (13) Industrial economics, (14) Managerial economics, (15) Economics of development, (16) Economics of planning, (17) Economics of transport, (18) Economics of education, (19) Keynesian economics, (20) Marxian economics, (21) Rural economics, (22) Economics of war, (23) Economics of co-operation, (24) Research methodology, (25) Economic sociology, (26) Economic geography, (27) Economic botany, (28) Commerce, (29) Economics of love, and (30) Economics of labour.

The Dictionary includes definitions of economic terms, statements of economic laws, theories and principles with historical notes wherever necessary, descriptions of economic and financial institutions and organizations, biographical sketches of eminent economists—dead and living, foreign and Indian—with a greater accent on their important contributions

to the science of economics and finally summaries of the reports of important economic committees and commissions. I have also added an appendix containing some interesting and useful economic quotations.

"The beginner (of economics) must be warned that he will have to master a technical vocabulary. Instead of coining new words however or using Latin and Greek terms as many of other sciences do, economics has created its own vocabulary by taking words in ordinary everyday use assigning special meanings to them. Unless a student is careful, this will be a source of confusion". (*A.L. Meyers*). Accordingly this *Dictionary* will enable the beginners to acquire exact technical meaning of the economic terms.

Then there is another and very serious problem which is peculiar to economics: "More unfortunate from the student's point of view is the fact that not all economists always mean exactly the same thing when they use the same term". (*A.L. Meyers*). "In Economics the same word (concept) is variously defined. We do not have the principle of linguistic monogamy—one meaning wedded to one word. We (thus) find in Economics linguistic polygamy or Hollywood marriage". (*Kenneth E. Boulding*). Further, of all the social sciences, economics is the most controversial. In this connection F. Y. Edgeworth remarks, "We hold that for the mastery of a speculative and controversial science (which economics is) a certain multiplication of authorities is desirable. It is a false tendency on the part of the teachers to inculcate and the pupils to learn by rote the very phrases and metaphors of a favourite author". In view of the aforesaid difficulty and in order to get over it, the views of different economists on the same concepts are put together. The cross-study of different authors should present a complete and correct idea.

The question of claiming originality does not arise at all, because A.N. Whitehead has already settled the issue for good when he said: "Everything of importance has been said before by somebody who did not discover it".

G.L.S. Shackle in his *Economics for Pleasure* observes: "Hatred, ridicule and contempt......are the lot of economist, for he is the exponent of dismal science". However, while presenting the life sketches of economists, I have eschewed the above 'lot of economist' and have tried to concentrate on the positive contribution of these economists without myself being either idolatrous or hyper-critical.

Against each entry in the bracket I have mentioned the context, that is the branch of economics, in which the entry is used, so as to avoid the possible confusion in the mind of the reader.

I have spent over 20 years since I joined Yeshwant Mahavidyalaya Nanded (Maharashtra) as lecturer in economics in 1963, in reading hundreds of economic books and journals, collecting material, processing and co-ordinating it and presenting it in the present form. I earnestly hope that my pains-taking efforts will be blessed with a reward that I am placing

in the hands of the readers. I alone am responsible for any shortcomings or inaccuracies in the book and the suggestions for correction or improvement will be gratefully accepted.

I express my thanks to my first Principal G.R. Mhaisekar (later the Rajya Sabha Member) and my students for having induced me to compile this *Dictionary*. My thanks are also due to my colleagues J.P. Karva and P.G. Nayak for having assisted me in preparing the book and Mr. N.S. Kotur and P. Goudellar for having typed the manuscript.

I very humbly acknowledge my deep indebtedness to all the authors and their esteemed publishers for my having consulted their books in preparing the present *Dictionary*.

Lastly I would be failing in my duty if I do not express my thanks to my wife and children for their 'waiting' and 'abstinence'.

Dharwar N.B. Ghodke

LIST OF THE AUTHORS QUOTED

1. *Abbey Dictionary*
2. H.C. Adams
3. Adapted
4. A.N. Agrawal
5. H.L. Ahuja
6. Alexander
7. Allen, Buchanan and Colberg
8. R.G.D. Allen
9. *American Home Economics Association*
10. J. Amuzegar
11. Andley and Sundharam
12. Aristotle
13. *Austrian School of Economics*

14. George L. Bach
15. Walter Bagehot
16. Joe S. Bain
17. Balfour
18. C.S. Barla and H.S. Agarwal
19. Bastable
20. A.K Basu
21. J.R. Batliboi
22. P.T. Bauer
23. P.T. Bauer and B.S. Yamey
24. William J. Baumol
25. A. Beacham
26. R.D. Bedi
27. J.F. Bell
28. P.W. Bell and M.P. Todaro
29. Frederic Benham
30. E.M. Bernstein
31. Charles Bettelheim
32. William Beveridge
33. A.B. Bhattacharya
34. *Bill of Exchange Act, 1882*
35. Mark Blaug
36. Gordon F. Bloom
37. M.B. Bober
38. J. Bocke
39. Boddington
40. Bonhe
41. Kenneth E. Boulding
42. Bowley and Stamp
43. A.L. Bowley
44. M. Bowley
45. P.R. Brahmananda
46. Briggs and Jordan
47. *British Institute of Personnel Management*
48. *British Labour Ministry*
49. B.C. Brookes and W.F.L. Dick
50. F.S. Brooman
51. Buchanan Colberg
52. Buckle
53. *Bullion Report*, 1910
54. *Businessmen's View*
55. Raymond Bye

56. A.K. Cairncross
57. H. Calvert
58. Edwin Cannan
59. Carr Saunders
60. T.N. Carver
61. Gustav Cassel
62. J.M. Cassels
63. R.E. Chaddock
64. Edward H. Chamberlin
65. *Chamber's Twentieth Century Dictionary*
66. Mahesh Chand
67. Lester V. Chandler
68. Pei-Kang Chang
69. Chapman
70. Raja J. Chelliah
71. Michael Chisolm
72. P.N. Chopra
73. Alessandro Cigno

74. Clay
75. Colin Clark
76. Colin Clark and Margaret Haswell
77. J.M. Clark
78. R. Cohen
79. Edwin Coke
80. G.D.H. Cole
81. *Common View*
82. *Companies Act*, 1936
83. *Compiler*
84. Luigi Cossa
85. *Cottage Industries Sub-committee, India*
86. J.H.R. Cromwell and E.H. Czerwonky
87. Geoffrey Crowther
88. Norman Crump
89. W.A. Coulborn
90. A. Cournot
91. Dominick T. Coyle
92. William Cunningham
93. *Cynical definition*

94. Hugh Dalton
95. Clarence Danhop
96. M.L. Darling
97. A.B. Das and M.N. Chatterji
98. A.K. Dasgupta
99. Sohrab R. Daver
100. Herbert J. Davenport
101. A.C.L. Day
102. M.H. dekock
103. C.D. Deshmukh
104. K.K. Dewett
105. Dewett, Singh and Varma
106. H.D. Dickinson
107. *Dictionary Meaning*
108. Dudley Dillard
109. Maurice Dobb
110. Robert Dorfman
111. E.F.M. Durbin
112. John Due

113. *The Economic Times*
114. F.Y. Edgeworth
115. Edison
116. Paul Einzig
117. D.L. Elhance
118. Howard S. Ellis
119. P.T. Ellsworth
120. Richard T. Ely
121. *Encyclopaedia Britannica*
122. *Encyclopaedia of Economics*
123. *Encyclopaedia of Social Sciences*
124. Frederic Engels
125. Escher
126. James A. Estey
127. *Everymans Encyclopaedia*

128. Fairchild
129. Fairchild, Buck and Slesinger
130. C.R. Fay
131. W.J. Fellner
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133. Fetter
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137. Miles Fleming
138. P. Sargent Florence
139. G.W. Forster and M.L. Leager
140. L.M. Fraser
141. *French Authority*
142. Ragnar Frisch

143. General Definition
144. Rosen George
145. Alak Ghosh
146. B.N. Ghosh
147. Charles Gide and Charles Rist
148. R.T. Gill
149. V.V. Giri
150. H.H. Gossen

151. *Government of India*
152. Henry Grayson
153. J. Gruntzel
154. R.D. Gupta
155. J.G. Gurley and E.S. Shaw
156. Gottfried Von Haberler
157. Arthur T. Hadley
158. W.W. Haines
159. R.L. Hall
160. George N. Halm
161. Earl Humilton
162. Lewis H. Haney
163. Alvin H. Hansen
164. J.L. Hanson
165. R.F. Harrod
166. J. Harvey
167. S.F. Hasan
168. R.M. Havens, J.S. Henderson and D.C. Cammer
169. Ralph G. Hawtrey
170. F. Hayashi
171. F.A. Von Hayek
172. R.L. Heilbroner
173. Heilperin
174. Karl Helfferich
175. L. Herber and L. Hart
176. Hermann
177. M.T. Herrick
178. J.R. Hicks
179. Ursula K. Hicks
180. Benjamin Higgins
181. Justice Higgins
182. Albert Hirschman
183. J.A. Hobson
184. Harold Hotelling
185. Chiang Hsien
186. Hsu
187. Huntington
188. *India*
189. *Indian Companies Act*
190. *Indian Council of Agricultural Research (ICAR)*
191. *Indian Express*
192. *Indian Partnership Act*, 1932
193. *Indian Taxation Enquiry Commission*
194. *Industrial Finance Corporation Act, India*
195. *International Encyclopaedia of Social Sciences*
196. *International Labour Organisation*
197. L.C. Jain
198. P.C. Jain
199. *James and James Mathematics Dictionary*
200. Jathar and Beri
201. W.S. John Jevons
202. John Jewkes
203. M.L. Jhingan
204. Jones
205. M J. Jucius
206. A.E. Kahn
207. M. Kalecki
208. K.N. Katju
209. Karl Kautsky
210. R.P. Kent
211. John Maynard Keynes
212. John Neville Keynes
213. E.M. Kemmerer
214. T.W. Kent
215. O.P. Khanna
216. D. Kinley
217. Braj Kishor and B.P. Singh
218. Laurence R. Klein
219. Klim,Starkey and Hall
220. G.F. Knapp
221. S. Korteweg and E.A.G. Keesing
222. Raj Krishna
223. V.T. Krishnamachari
224. K.L. Kool
225. S.C. Kuchhal
226. Kenneth Kurihara
227. Simon Kuznets
228. *Labour Department, Government of India*

229. D.T. Lakdawala
230. B.B. Lal
231. Sanjay Lall
232. Carl Landauer
233. Oscar Lange
234. Waltair Leaf
235. *League of Nations*
236. *League of Nations Committee*
237. *Legal definition*
238. Robert Lekachman
239. Wassily Leontief
240. Abba P. Lerner
241. Jean Lescure
242. Richard A. Lester
243. Levasseur
244. Herman Levy
245. Arthur Lewis
246. Richard G. Lipsey
247. I.M.D. Little
248. Lewish Lorwin
249. Loucks and Weldon Hoots
250. Lovitt
251. J.L. Lundy

252. Macfie
253. Fritz Machlup
254. *Macmillan Committee*
255. D. Macwright
256. *Madras State Aid to Industry Act, 1947*
257. Lord Mahon
258. Tapas Majumdar
259. T.R. Malthus
260. C.B. Mamoria
261. Alfred Marshall
262. Karl Marx
263. Rajnarain Mathur
264. McConnel
265. Mcculloch
266. M.P. McNair and R.S. Meriam
267. M.A.G. Van Meerhaeghe
268. J.K. Mehta
269. V.L. Mehta
270. G.M. Meier and R.E. Baldwin
271. Votto Von Merring
272. Albert L. Meyers
273. John Stuart Mill
274. Ludwig Von Mises
275. Wesley C. Mitchell
276. J.K. Mitra
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278. G.S. Monga
279. W. Morris
280. S. Mukhopadhyay and D. Datta
281. Anatol Murad
282. Murray Havens, Henderson and Cammer
283. Richard, A. Musgrave
284. Hla Mynt

285. S. Nanjundan, A.E. Robinson and E. Staley
286. D.M. Nanjundappa
287. Claudio Napoleoni
288. Shanti Narayan
289. *National Board for Economy and Efficiency*
290. *National Council of Applied Economic Research (N.C.A.E.R.)*
291. *National Planning Committee of India*
292. *Negotiable Instruments Act, 1881, India*
293. E.T. Nevin
294. Newcomb
295. P.C. Newman
296. W.S. Nicholls
297. J.S. Nicholson
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299. Rangar Nurkse
300. Nussbaum

301. Bertil Ohlin
302. Roger Orsinger

303. B.N. Pal
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305. V.R. Panchamukhi
306. Vilfredo Pareto

307. *Parliament of England*
308. Don Patinkin
309. J. Pentmann
310. Person
311. Florence Peterson
312. William Petty
313. Arthur C. Pigou
314. E.H. Plank
315. *Planning Commission of India*
316. Plehn
317. K.N. Prasad
318. P.H. Prasad
319. A.R. Prest
320. K. Pultaswamaiah

321. *Quoted*
322. F. Quesnay

323. Rajkrishna
324. K.T. Ramkrishna
325. Melvin W. Reder
326. *Refinance Corporation of India*
327. *Reserve Bank of India*
328. David Ricardo
329. Lionel C. Robbins
330. Dennis H. Robertson
331. Joan Robinson
332. Eric Roll
333. W. Roscher
334. Sam Rosen
335. W. Roscher
336. P.N. Rosenstein-Rodan
337. W. Roscher
338. *Royal Commission of England*
339. I.M. Rubinow

340. T.N. Sachdev
341. Paul A. Samuelson
342. J. Sanmarti J.S.
343. K. Sanyasiah and A.V. Ranganadhachary
344. A.K. Saran and U.B. Singh
345. S.R. Saxena
346. J.B. Say
347. R.S. Sayers
348. W.M. Scammel
349. C.L. Schultze
350. Joseph A. Schumpeter
351. Tibor Scitovsky
352. Seager
353. *Second Five Year Plan*
354. *Securities Contracts (Regulations) Act*, 1956
355. H. Secrist
356. A. Seldon and E.G. Pennance
357. *Select Committee of Home of Lords*
358. E.R.A. Seligman
359. Sen and Mitra
360. Nassau W. Senior
361. M.L. Seth
362. G.L.S. Shackle
363. S. Shankaran
364. B.F. Shields
365. F. Shirras
366. P.D. Shrimali
367. T.S. Simey
368. Hans Singer
369. Bright Singh
370. H.K. Manmohan Singh
371. V.B. Singh
372. Adam Smith
373. Vera Smith
374. Warren Smith
375. Arthur Smithies
376. Andrew Snowfield
377. Bo Soderstein
378. George Soul
379. *South Australian Industrial Code of 1920*
380. Thomas Spates
381. M.H. Spencer and L. Siegelman
382. Joseph J. Spengler
383. Arthur Spiethoff
384. O.W.M. Sprague
385. Srivastav, Nigam, Sahai and Banerjee
386. H.G.P. Srivastava
387. S.K. Srivastava

388. Eugene Staley
389. Joseph Stalin
390. Josiah Stamp
391. *Statute of the Bank for International Settlement*
392. George J. Stigler
393. A.W. Stonier and D.C. Hague
394. Paul Studentsky
395. (*A*) *U.N. Study*
396. P.V. Sukhatme
397. K.P.M. Sundharam
398. K.P.M. Sundharam and M.C. Vaish

399. B.C. Tandon
400. F.W. Taussig
401. *Taxation Enquiry Commission of India*
402. P.A.S. Tayler
403. Philip E. Taylor
404. Max M. Tharp
405. Evelyn Thomas
406. Rollin G. Thomas
407. S.E. Thomas
408. Jan Tinbergen
409. R.N. Tiwari

410. *United Nations Organisation* (*UNO*)
411. *U.N. Department of Economic and Social Affairs*
412. *U.N. Sub-Committee's Report*
413. *U.S. Census of Agriculture*
414. *U.S. Department of Commerce*

415. C.N. Vakil
416. R.L. Varshney and K.L. Maheshwari
417. M.C. Vaish
418. M.C. Vaish and K.P.M. Sundharam
419. S. Venu
420. Jacob Viner

421. Adolf Wagner
422. F.A. Walker
423. Max. J. Wasserman and C.W. Hultman
424. G.S. Watkins and P.A. Dodd
425. Albert Waterson
426. Donald S. Watson
427. A.E. Waugh
428. Sydney and Beatrice Webb
429. Max Weber
430. Webstor
431. Weston and Crew
432. Whittlesey Freedman and Herman
433. Knut Wicksell
434. Philip H. Wicksteed
435. Friedrich Von Wieser
436. Oscar Wilde
437. H.F. Williamson
438. H.F. Williamson and J.A. Buttrick
439. Hartley Withers
440. Barbara Wootton
441. P.G. Wright

442. Dale Yoder
443. *Yojana*
444. Arthur Young

445. F. Zweig

DAIRY INDUSTRY (*Animal husbandry)

It embraces the production of milk and its preparation for sale as well as the manufacture, distribution and marketing of dairy products.

Encyclopaedia Britannica

DALTON, HUGH (*History of economic thought)

The late Dr. Hugh Dalton, "a profound student of economic theory" and a tool-maker in public finance "served for ten years as a Minister of the Crown both in war and peace, and held, among other high offices, those of Chancellor of the Exchequer and President of the Board of Trade". For some time he was Reader in Economics in the University of London.

From 1942 to 1945 he had been President of the Board of Trade in Mr. Winston Churchill's coalition Government. For twenty-eight months from July 1945 to November 1947, he held the office of Chancellor of the Exchequer in the Labour Government headed by Mr. Attlee. During that period he presented four budgets which brought him bouquets and brick-bats. He was succeded by Sir Stafford Cripps.

Like A.C. Pigou, he advocated the ability to pay principle of taxation. Further, like Pigou, "he proposed two principles of budget policy. The first is that resources should be distributed among different public uses so as to equalise the marginal return of satisfaction for each type of outlay. The second is that public expenditures should be pushed to the point where the satisfaction obtained from the last dollar expended is equal to the satisfaction lost from the last dollar taken in taxes". (R. Musgrave). In his *The Inequality of Incomes*, he showed that the root cause of inequality of incomes was the inequality of inherited wealth. He favoured cheap money policy for England. This led to the coinage of the expression "Dalton Cheap Money Drive".

He became Minister of Finance in his late fifties; but he had the "uncommon experience of writing a text book in his middle thirties". The book is *Principles of Public Finance*. Since 1922, when it was first published, the book, like Marshall's *Principles of Economics*, has undergone more than eight editions and many reprints and has been translated into Arabic, Chinese, Czech, Dutch, Geraman, Japanese, Spanish and Turkish. In this book Dr. Dalton, P.C., M.A., D.Sc. (Econ.), sets out in a very illuminating and pioneering way the chief general principles which are applicable to the public finance of a modern community. It excites the judgment briefly rather than informing tediously.

It may not be wrong to observe that Dalton's *Principles* is the starting point of all the modern discussions on public finance. It is the fount and the later formulations are extensions and refinements.

Compiler

DAM (*Agricultural economics)

A barrier built across a river or stream to control the flow of water. Such a structure may serve one or more functions: diverting the flow into a canal, pipeline, or other channel; raising the water level to a height sufficient to produce power or to form a pool for navigation, recreation, or the elimination of tidal or seasonal fluctuations; storing water for human consumption or irrigation; or providing a means for flood, erosion and silt control.

Encyclopaedia Britannica

DAMODAR VALLEY CORPORATION (D.V.C) PROJECT (*Agricultural economics)

The project comprises four storage dams at Tilaiya, Konar, Maithon and Panchet Hill (West Bengal and Bihar, India) with hydel power houses of a total designed capacity of 104 mw attached to all the dams except Konar, three thermal power stations at Bokaro, Durgapur and Chandrapura, and extensive power transmission grid and an irrigation barrage at Durgapur canals and distributaries.

The Tilaiya dam on the river Barakar, with earthen extensions on either side, was completed in 1953. There is a 4,000 kw. power house near the dam. The Konar dam completed in October, 1955. The Maithon dam on the river Barakar, which was completed in 1957, stores 13,610 lakh cubic metres of water and the underground hydro-electric station near the dam has a capacity of 60 mw.

Designed primarily for flood control, the Panchet Hill Dam on river Damodar, completed in December 1959, stores 14,970 lakh cubic metres of water. A 40 mw hydro-electric station, built near the dam, was commissioned in september, 1159.

The 692-metre long and 11.58 metre high barrage on river Damodar at Durgapur in West Bengal was opened in August 1955. The operation and maintenance of the barrage and irrigation system was transferred to the Government of W.B. from April 1, 1964. Nearly 137 Km of the main left bank canal have been made navigable.

Compiler

DANDEKAR, V.M. (*History of economic thought)

An eminent Indian economist. He succeeded the late Dr. D.R. Gadgil, as the Director of the Gokhale Institute of Politics and Economics, Poona, a leading research centre. His recent (1971) masterly analysis (along with Prof. Nilakanth Rath) of the spectrum of poverty in India threw new light on the problem and gave a prop for further investigation.

He has written a number of books and articles and has directed many a research project, besides conducting important socio-economic surveys.

Professor Dandekar was the President of the Indian Economic Association in 1973.

Compiler

DANGEROUS OCCUPATIONS (*Economics of labour)

All those that present hazards to the health or life of workers.

Encyclopaedia Britannica

DANTWALA, MOHANLAL LALLUBHAI (b. 1909) (*History of economic thought)

A reputed economist and the doyen among the agricultural economists of India.

Born on September 18, 1909, Prof. M.L. Dantwala passed his B.A of Bombay University in 1930 in first class winning James Taylor prize. He passed his M.A. of the same University in first class in 1933. In March 1968, the Agricultural University of Wageningen (Netherlands) conferred upon him the Honorary Degree of Doctor of Agricultural Science for his pioneering work in the realm of agricultural economics. In January 1969, the president of India awarded him the august title of Padma Bhusan in recognition of his yeoman service to the agricultural sector of the Indian economy.

He joined the College of Commerce, Ahmedabad in 1936 and remained there till 1945. From 1945 to 1975 he served as Professor of Economics and Director of the Bombay School of Economics. During his teaching career of over 30 years, he has directed and conducted a number of economic surveys and submitted papers to a number of conferences and seminars in India and abroad.

He has written a number of books. To cite a few important works:

(1) *Gandhism Reconsidered*,
(2) *Marketing and Trade in Raw Cotton*
(3) *A Hundred Years of Indian Cotton*
(4) *India's Food Problem*
(5) *Poverty Then (1870) and Now (1970)*

Besides, he has published numerous papers and articles in leading Indian and foreign journals, mainly on current agricultural problems.

Prof. Dantwala is one of the few Indian economists who have held a large number of prestigious posts and positions. They include:

(1) Congress Agrarian Reforms Committee (Member)
(2) Travancore-Cochin Banking Enquiry Commission (Member, 1951-52)
(3) Panel on Land Reforms, N.P.C.
(4) Central Pay Commission (1958-59) (Member)
(5) National Co-operative Development and Warehousing Board (Member)
(6) Agricultural Economics Committee, ICAR, New Delhi (Chairman)
(7) Expert Committee on Co-operative Marketing (Chairman)

(8) Forward Markets Review Committee (Chairman)
(9) Foodgrains Policy Committee (Member)
(10) Agricultural Prices Commission (Chairman)
(11) Bank of India (Director)
(12) Committee of Experts on Unemployment Estimates, N.P.C (Chairman)
(13) Food Corporation of India (Director)
(14) Governing Council, NSS Organisation, Central Statistical Organisation, Cabinet Secretariat, (Member)
(15) Indian Council of Social Science Research (ICSSR) (Member)
(16) Panel of Economists, Ministry of Food and Agriculture (Chairman)
(17) Indian Society of Agricultural Economics (President)
(18) Agricultural Finance Corporation (Member)
(19) Agricultural Credit Board, R.B.I. (Member)
(20) Panel of Economists, National Commission on Agriculture (Chairman)
(21) Central Board, R.B.I. (Director)
(22) Industrial Development Bank of India (Director)
(23) Review Committee on Regional Rural Banks (Chairman)

In 1967, he led the Indian delegation to the Second World Land Reforms Conference (FAO). He was the president of the All India Agricultural Economic conference and the Indian Economic Association in 1960 and 1970 respectively.

Compiler

DASGUPTA, A.K. (*History of economic thought)

An eminent Indian economist.

Dr. A.K. Dasgupta, the Director of A.N. Sinha Institute of Social Studies, Patna and the past President of the Indian Economic Association (1960) is one of the few brilliant theoretical economists in the country. He was the first to present a theoretical analysis of inflation in India. He has published several books and articles.

Compiler

DAS KAPITAL (*Marxian economics)

Karl Marx's major work, the container of all his doctrines was (Das) *Capital.* This is a strange book, with an even stranger publication history. Its first volume appeared in 1867; but the second and third, only after Marx's death; and the fourth, itself divided into three substantial parts, not until this (20th) century. The first three volumes in English translation, fall little short of 3000 pages, inordinately long for a revolutionary tract, not brief for anything else. Nor did the manner ingratiate. *Capital* opened with 150 pages of subtle, philosophical discussion of the concept of value. In these pages, hairsplitting distinctions jostled rude attacks upon

other economists and capitalists in general. (Everything was bathed in a wash of footnotes of the most erudite variety, drawing upon works in Greek, Latin, German, English, French, and Italian.) Suddenly the manner changed and the remainder of the first volume illustrated several simple theoretical points. The exploitation of worker by capitalists, a theoretical necessity of capitalism, was described in impressive detail. Marx drew his facts from the reports of the English factory inspectors, the heroes of his grim tale. These pages burned with indignation at workers' wrongs, anger at their oppressors, and thirst for revolt. Strange materials for an economic treatise:

Edited for publication by Friedrich Engels from Marx's sketchy notes, Volume II (1884) dealt entirely with capital theory. Full of tedious arithmetic schemes of capital production and reproduction, it must be one of an eminent economist's least-read works. Volume III (1894) meticulously described distribution. It was also a descent to a lower plane of abstraction, on which actual market prices received their explanation. Volume IV, edited by Karl Kautsky after Engel's death was a scholarly history of theories of surplus value.

Robert Lekachman

Karl Marx, the founder of the philosophy of Communism, devoted most of the space in *Das Kapital* (1867) to *his* theory of the values of commodities produced in a capitalist economy.

D.S. Watson

DATED SECURITY (*Industrial economics)

Bill of exchange or bond or other security with a stated date or a range of dates for cash repayment of the face value of the security. *Short-dated security* is one for which the repayment date is near while long-dated security is that for which it is a long time ahead.

Compiler

DATTA, AMLAN (*History of economic thought)

An eminent Indian economist. He was vice-chancellor of Noth Bengal University. His famous book is *Essays on Economic Development.*

Compiler

DATTA, BHABATOSH (*History of economic thought)

An eminent Indian economist, Professor Datta graduated from Calcutta University and received Ph.D. degree from London University. From 1950 to 1962, he was Professor of Economics in Presidency College, Calcutta. Among the many important positions held by Prof. Datta are: (1) Member, Indian Statistical Institute, (2) Life Fellow, Royal Economic Society, London. (3) President. Indian Economic Association, (1975), (4) Member, Fourth Finance Commission of India (5) Director, I.D.B.I.

(6) Director, Central Board, R.B.I. (7) Chief, South Asia Division, I.M.F. and (8) Chairman, Centre for Studies in Social Sciences.

Prof. Datta has written *inter alia* (1) *Economics of Industrialisation* (1952), (2) *The Evolution of Economic Thinking in India* (1962), (3) *Essays in Plan Economics* (1963), (4) *The Contents of Economic Growth and Other Essays.*

Compiler

DAVANZATI, BERNARDO (1529-1606) (*History of economic thought)

Italian economist. He was one of the first to establish the nexus between the quantity of money in circulation and level of prices.

Compiler

DAVENPORT, HERBERT JOSEPH (1861-1931) (*History of economic thought)

American economist and true teacher. He was awarded doctorate in economics in 1898 by Chicago University; became instructor at the same University in 1902; was appointed the Head of the Department of Economics at University of Missouri; and taught from 1916 to 1928 in Cornell University. He wrote several text-books and articles to leading professional journals such as *The Journal of Political Economy, American Economic Review*, and *The Quarterly Journal of Economics.*

His two main works are: (1) *Value and Distribution* (1908) and (2) *The Economics of Enterprise* (1913). The first makes a critical survey of economic doctrines. It exhaustively deals with the distinct meanings of the term labour theory of value. The second is the exposition of his own economic ideas.

He claims originality for his loan-fund doctrine of capital. He is the inventor of the important concept of alternative cost. "He was the leader in a vital crusade against all notions of the determination of prices or control of economic activity by real values or real costs." He was a non-mathematical, highly individualistic and radical economist.

About Davenport, Schumpeter observes thus: "H.J. Davenport was an excellent theorist and a great teacher in his day, and the profession is under considerable obligation to him for the infinite pains he took to straighten out the fundamental problems of the theory of his time. He was an enthusiastic Veblenite and a strong radical of the Middle Western type. He affords one of the examples that show that pre-occupation with the theory of that epoch was perfectly compatible with institutionalist sympathies.

Compiler

DAY (*Theory of value)

The notion introduced by Denis H. Robertson. It denotes a period too short to dispose of earned income.

Compiler

DAY WORK (*Economics of labour)

It usually refers to work where wages are a fixed amount per hour or day in contrast to incentive or piece work. Also used to designate day shifts under multiple shift arrangements, or casual labour in contrast to employment having some degree of permanence.

Florence Peterson

DEADHEADING (*Economics of labour)

In certain industries the term is used in connection with the practice of not promoting (deadheading) a person where seniority entitles him to a higher position, but who is not qualified to do the work, and allowing junior employees to move around him.

Florence Peterson

DEAD TIME (*Economics of labour)

Lost time for which the employee is not responsible (machine breakdowns, delays in recurring materials, etc.) and for which an incentive worker usually is paid his regular wages.

Florence Peterson

DEADWEIGHT DEBT (*Public finance)

A distinction is often drawn between 'reproductive debt'—an absurd phrase—and 'deadweight debt'. (The former is debt which is fully covered, or balanced, by the possession of assets of equal value) The latter is debt to which no existing assets correspond. (The interest and sinking fund on reproductive debt is normally paid out of income derived by the public authority from ownership of its property or the conduct of its enterprises.) The interest and sinking fund, if any, on deadweight debt must be obtained from some other source of public income, generally from taxation, and since there is no corresponding asset, there is no good working rule for the period of repayment.

Hugh Dalton

It is possible to draw a distinction between "living debt" and "deadweight debt." The former is borne by the remunerative assets it has helped to bring into being while the latter, as its name implies, is an obligation without offsetting assets.

Geoffrey Crowther

Deadweight debt is an unproductive debt usually contracted for financing war. Therefore, war debt is described as deadweight debt.

Compiler

DEADWORK (*Economics of labour)

Used in mining to refer to non-productive work including the removal of rock, debris, and other waste matters from the product mined.

Florence Peterson

DEALER (*Industrial economics)

A member of stock exchange. A professional speculator. Dealers are responsible for the making of prices of stocks and shares according to the general conditions of demand and supply.

A.K. Basu

DEAR MONEY (*Monetary economics)

Also called tight money, it is the opposite of cheap money or easy money. It refers to a deliberate policy (of the monetary authorities) of keeping the rates of interest high. It is often followed by restrictions on the availability of credit, and is aimed at curtailing borrowings with a view to combat inflation. Dear money policy usually attracts foreign capital and helps cure balance of payments difficulties.

The Reserve Bank of India is more or less using the dear money policy in the wake of persistently soaring prices, albeit the policy adversely affects capital formation.

Compiler

DEATH DUTY (*Public finance)

Tax levied on the transfer of property after the death of an individual to his heirs.

It has two forms: (1) Estate duty, and (2) inheritance tax.

(1) *Estate duty* or *succession duty* is death duty levied on the total passing property of the deceased. (2) *Inheritance tax* is the death duty on the share of the property of the deceased received by each heir.

Das and Chatterji

Death taxes are imposed upon the occasion of transfer of property at death. Two types of death taxes are in use. One is the *estate tax*, imposed upon the estate before distribution to lawful heirs. The other is the *inheritance* or succession tax, using as its base the distributive share to the individual heir. Much controversy has raged over the relative merits of the two types.

Death taxes are among the oldest of tax measures.

The modern era of death taxation in the U.S. began at about the beginning of the 20th century for state governments, while modern federal use began during World War I.

P.E. Taylor

Historically, in the U.K. the inheritance principle was favoured before 1894, the year Harcourt introduced the present estate duty ; and for 55 years after that we had a mixture of inheritance and estate duties.

A.R. Prest

In India the death duty was levied in the form of estate duty on 15th October 1953. It is imposed on the estate, other than agricultural property, of a person on his death before it passes on to his heirs.

Compiler

DEATH RATE (*Demography)

The number of deaths taking place in a year for every 1000 of the population of a country is referred to as the crude death rate. It is also called mortality rate as opposed to birth rate or natality rate.

Compiler

DEBASEMENT (*Monetary economics)

When a coin contains less than the standard amount of precious metals, the difference between standard and real value is called debasement.

Rajnarain Mathur

The issue of coins containing less precious metal than they are alleged to contain.

W.W. Haines

DEBENTURE (*Industrial economics)

The term debenture is commonly used in Great Britain to designate all classes of certificates or written instruments issued under seal and evidencing indebtedness of companies (i.e. corporations). Its English use is thus largely equivalent to the word 'bond' in the U.S.A. where debenture is ordinarily restricted to certificates or corporate obligations having no special security such as mortgage, lien or assignment of property.

Encyclopaedia of Social Sciences

Debentures are not shares and the holders are creditors and not members of the company like the share-holders. Debenture is entitled to receive interest whether the company makes a profit or a loss.

J.L. Hanson

Debentures are fixed-interest securities issued by the joint-stock companies in return for long-term loans generally ten to forty years. They may be redeemed by the borrower to the holder (repaid) before the final date. Or they may be irredeemable.

Debentures are a debt of the corporation and not part of its capital. They may be either mortgage debentures (i.e. secured by a mortgage on specific assets of the company) or floating charge debentures.

Compiler

DEBT (*Monetary economics)

An obligation to pay in the future.

L.V. Chandler

The promise to repay at some future time the equivalent of something of value previously received.

W.W. Haines

The term refers to all monetary transactions. If you buy a penny worth sweet, you incur a debt of one penny. This debt is settled by you when you pass the penny coin to the seller. This is called settlement of debt.

R.S. Sayers

That relationship which exists between two persons when one, the debtor can be compelled in some fashion to furnish services, money or goods to the other, the creditor.

Encyclopaedia of Social Sciences

DEBT CONVERSION (*Public finance)

The issue by the government of new securities to replace existing or maturing debt. Conversion is a part of debt management technique.

See also *Conversion.*

Compiler

DEBT LIMITATION (*Public finance)

A plan designed to restrict current expenditures of governments to a limited amount in excess of current revenue collections by establishing the maximum amount of debt which may be incurred.

Philip E. Taylor

DEBT MANAGEMENT (*Public finance)

The process of managing the national debt, i.e. arranging for the payment of interest and the refinancing of maturing bonds.

Compiler

Fiscal policy discussions usually run in terms of the relation of receipts to expenditures, the proper allocation of expenditures, and the proper pattern of taxation, all within the general context of stable economic growth. It is less frequently realized that, apart from these central questions of fiscal policy, the manner in which public debt is managed may have important economic impact. The question facing us is, given the debt, or given budgetary situations which increase or decrease debt, how can we accomplish the inevitable debt turnover or refunding and the floatation or retirement of debt in order to gain the greatest economic advantages or the least economic disadvantages?

Three general principles of debt management can be identified: (1) The policies pursued must be able to extract from the public, without undue coercion, the necessary loans to finance a deficit or to replace maturing securities, and this should be done at the lowest feasible interest cost. (2) The extraction of loanable funds from the market, and the repayment of funds to the market when debt is retired, should serve and not frustrate the economic objective of stable growth. (3) The debt should

be so placed as to minimize the need to enter the market when it is inconvenient or unpropititious to do so. There are potential conflicts among these aims.

Philip E. Taylor

Debt management may be defined as all measures that afiect the size and composition of the stock of outstanding claims against the Federal Government.

Warren L. Smith

DEBT REDEMPTION (*Public finance)

Repayment of public debt. Debt repayment maintains and strengthens the national credit and releases funds for trade and industry as well. The following are some of the methods of debt redemption:

(1) Utilization of surplus revenue, (2) Purchase of government bonds, (3) Terminable annuities (4) Conversion, (5) Sinking fund, (6) Debt repudiation, (7) Compulsory reduction of interest, (8) Steep taxation of higher income, and (9) Capital levy.

K.K. Dewett

Paying off public debt. The various methods available to the government to pay off its debt are:

(1) Repudiation of debt (i.e. refusal to pay the interest as well as the principal).
(2) Conversion of loans (i.e. conversion of an old loan into a new loan).
(3) Serial bond redemption (i.e. paying every year a certain portion of the bonds issued previously).
(4) Buying up loans (i.e. spending the amount to pay off government loan bonds from the market where they are bought and sold).
(5) Sinking fund (i.e, the creation and the gradual accumulation of a fund sufficient to pay off public debt).
(6) Capital levy (i.e. once-for-all tax).

K.P.M. Sundharam

DECASUALISATION (*Economics of labour)

The expression, first used by Lord Beveridge, implies the abolition of the practice of the casual employment of workers.

According to the report of the Royal Commission on the Poor Laws and Relief of Distress (1909), the practice of casual employment was one of the most insidious causes of social distress. Beveridge in his *Full Employment in a Free Society* (1944) recommended that the guaranteed wage introduced during the world War II should be continued and this should be accompanied by permanent employment. The Devlin Report

recommended decasualisation and it was implemented in England in September 1967.

Compiler

DECENTRALISATION OF INDUSTRY (*Industrial economics)

The opposite of localisation of industry which is also called territorial division of labour. The term refers to dispersal of industries throughout the length and breadth of the country.

Compiler

DECENTRALISED PLANNING (*Economics of planning)

Economic planning may be centralised or decentralised. (In centralised planning, the task of formulating, adopting, executing and supervising a plan is entrusted to a highpower central authority). In decentralised planning, on the contrary, there is dispersal of functions. The regional bodies and local enterprises are given greater freedom to formulate, adopt and implement the plan. Centralised planning represents in a way planning from above while decentralised planning stands for planning from below.

M.L. Seth

Indian planning represents democratic decentralised planning.

Compiler

DECIMAL COINAGE (*Monetary economics)

A currency system in which the basic unit is divided into multiples of ten. On February 15, 1971, the U.K. government switched over from pound, shillings and pence duodecimal system to a decimal currency based on the pound.

In India the decimal coinage system was introduced on April 1, 1957 under the Indian Coinage (Amendment) Act which was passed in September 1955. Under the new system the rupee that remains unaltered in value and nomenclature is divided into 100 equal parts. *Paisa* (formerly *naya paise*) constitutes 1/100th part of the rupee. The *paisa* is the primary unit of Indian currency, and its multiples of 2, 3, 5, 10, 20, 25 and 50 *paise* form the different units of the new currency.

Before decimalisation, the rupee was divided into 16 *annas* and 192 *pies*. The old system read:

One rupee = 16 *annas*
One *anna* = 12 *pies*.

The old system was complicated. Surprisingly even to this day the ruralites advertently or inadvertently calculate in terms of annas.

Compiler

DECISION (*Theory of value)

A deliberate choice made after carefully considering and rejecting possible alternative courses.

Frederic Benham

DECISION THEORY (*Mathematical economics)

It has been developed to deal with problems of choice or decision making under uncertainty, where the probability figures required for the utility calculus are not available. (in game theory, choice problems which involve risk are analyzed with the aid of utility theory. One makes that decision whose expected utility is highest).

W.J. Baumol

DECREASE IN DEMAND (*Theory of value)

Purchasing either less quantity of a commodity at the same price, or the same amount at a lower price. The term 'decrease in demand' is distinguished from the term 'contraction' which implies that demand being dependent upon price, falls with a rise in price.

Compiler

DECREASING-COST INDUSTRY (*Theory of value)

An industry with a negatively sloping long-run supply curve owing to external economics. (For a constant-cost industry, the long-run supply curve is positively sloped, showing rising minimum average costs of the firms owing to the presence of external diseconomies).

Compiler

DECREASING COSTS (*Theory of value)

You have increasing cost if a producer sets a price at which he is willing to sell a given quantity or less, and decreasing costs if he be willing to sell at that price a given quantity or more.

Arthur T. Hadley

DECREASING RETURNS (*Theory of value)

Diminishing returns.

Compiler

DEDUCTION THEORY OF WAGES (*Theory of value)

It states that wages are what is left to the workers out of the product after rent, profit, and interest have claimed their share.

Maurice Dobb

It is another name for F.A. Walker's Residual claimant theory of wages.

Compiler

DEDUCTIVE METHOD (*Economic methodology)

Deductive or 'isolated' method is the method that works from the general to the particular by mental process of analysis.

Lewis H. Haney

Moving from the general to the particular.

W. Fellner

The process of logical deduction from a given proposition; the method is characteristic of, for example, mathematics.

E.T. Nevin

It is also known as the analytical, abstract and *a priori* method.

Deductive method may be described as the technique of an abstract approach to the problems of economic science. In deduction we start from a few indisputable facts about human nature and deduce or draw inferences from them about concrete individual cases.

M.L. Seth

The method which deduces conclusions from certain truths or axioms established by other methods by logical process of reasoning.

The Classicists are credited with having developed deductive or hypothetical method. Yet, according to J.N. Keynes, "Smith first raised political economy to the dignity of a deductive science. But he has also been regarded as the founder of the historical (i.e. inductive) method in political economy". Ricardo perfected the deductive method of reasoning. After him, Nassau Senior, J.S. Mill, J.E. Cairnes and Walter Bagehot further developed it. The neo-classical economists used this method in greater or lesser measure.

As a reaction against deductive method, inductive method was developed.

Marshall the great compromiser observed, "induction and deduction are both needed for scientific thought as the left and right foot are both needed for walking".

Sundharam and Vaish

DEEPENING PROCESS (*Industrial economics)

One where more capital is used per unit of output.

A.H. Hansen

DEFENCE EXPENDITURE (*Public finance)

The cost of defence—all of those costs related to war.

P.H. Taylor

Expenditure on capital equipment, factories, arsenals, army personnel in the form of wages, etc. It corresponds to Adam Smith's "first duty of

the sovereign", *viz.*, "defending the society from the violence of other independent societies".

Andley and Sundharam

According to Adam Smith, the first duty of the state in that of "defending the society from the violence and injustice of other independent societies". Defence expenditure to equip modern forces is a very complicated affair; it must provide for capital equipment, factories and barracks as well as ships, aeroplanes and tanks required for active service; it must also provide for stores, technical equipment on the one hand and clothing on the other—which form the "working capital" of defence machine. Finally a large proportion of defence expenditure is devoted to the payment of wages and salaries (in cash and in kind) of active personnel and of pensions to retired members of the forces.

Substantial changes in the needs of defence affect directly almost every part of the economy. There is no other form of public works which is so influential in determining the level of economic activity.

Ursula K. Hicks

DEFERRED DUTIES (*International economics)

The import duties which are held in reserve to be applied, for example, if a tariff war arises.

Gottfried Von Haberler

DEFERRED PAYMENT (*Monetary economics)

Future payment.

Compiler

DEFERRED SHARES (*Industrial economics)

Founders or deferred share-holders are entitled to receive a certain proportion, usually a large one, of the profits—only however, when these reach a certain minimum and also only after payment of a fixed rate of interest on debentures and bonds and the dividend on ordinary and preference shares.

Jathar and Beri

DEFICIENCE IN AGGREGATE EFFECTIVE DEMAND (*Keynesian economics)

A famous phrase coined by Lord Keynes in his *General Theory*. According to him it constitutes the root of mass unemployment and depression.

Compiler

DEFICIT BUDGETING (*Public finance)

There is said to be deficit budgeting when current expenditure exceeds current revenue without taking into account any item on capital

account. (But when receipts on capital account like public borrowing are also included and there is still a gap between receipts and expenditure, the method of financing used to cover this gap is called deficit financing. The value of deficit financing is measured in terms of the overall budget deficit on both the revenue and the capital accounts).

Dewett, Singh and Varma

DEFICIT FINANCING (*Public finance)

The term 'deficit financing' is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are of revenue or of capital account. The essence of such a policy lies, therefore, in government spending in excess of the revenue it receives in the shape of taxes, earnings from state enterprises, loans from the public, deposits and funds and other miscellaneous sources. The government may cover the deficit either by running down its accumulated balances or by borrowing from the banking system (mainly from the central bank of the country) and thus creating money.

First Five Year Plan, India

Any government spending in excess of current revenues that has the effect of increasing total outlay in the community.

Raja Chelliah

Net increase in the government borrowings from the Reserve Bank of India (Central Bank) plus the net decrease in the cash balances of the government.

National Council of Applied Economic Research (N.C.A.E.R.) (India)

It may mean direct expansion of currency through 'created money' by the government; or it may mean expansion of bank credit through governmental borrowings.

V.B. Singh

It simply means that the government spends more than it collects in taxation, leaving the budget unbalanced.

Dudley Dillard

The term 'deficit financing' refers to the situation in which a government, faced with the excess of its total spending over its total income from tax and non-tax sources, meets the resulting shortfall either by issuing fresh currency or through borrowings from the central bank or the public.

It implies an increase in the money supply and public debt. A moderate amount of deficit financing is desirable to activize an underdeveloped economy's potential productive resources but if carried too far, it might cause uncontrollable inflation.

M.C. Vaish

Deficit financing also known as deficit spending or compensatory finance or loosely pump-priming is a revolutionary contribution of Lord Keynes to the economics of public finance. It was advocated to combat depression.

It is widely argued that indiscriminate use of deficit financing is the root cause of unprecedented inflationary price rise in India. However, the Government maintains that deficit financing is a desideratum for the accelerated growth of the economy.

Surprisingly, the statistics relating to the plan-wise magnitude of deficit financing in India differ from source to source. However, the following figures from Report on Currency and Finance (R.B.I.) are widely quoted :

First Plan (1951-'56)	Rs. 333 crore (actual)
Second Plan (1956-'61)	Rs. 948 crore (actual)
	Rs. 1200 crore (planned)
Third Plan (1961-'66)	Rs. 550 crore (intended)
	Rs. 1133 crore (actual)
Annual Plans (1966-'69)	Rs. 1006 crore
Fourth Plan (1969-'74)	Rs. 850 crore (fixed)
	Rs. 2060 crore (actual)
Fifth Plan (1974-'78)	Rs. 1812 crore (actual)
Sixth Plan (1980-'85)	Rs. 5000 crore (estimated)

Compiler

DEFICIT SPENDING (*Public finance)

Another name for deficit financing. It is distinct from deficit budgeting. The newly generated high voltage money is termed as deficit spending.

Compiler

DEFINITIVE MONEY (*Monetary economics)

Money in which even a central institution is entitled to make a final and ultimate discharge of its obligations including the obligation to convert convertible money.

Denis H. Robertson

The kind in which monetary system is defined.

W.W. Haines

DEFINITIVE NON-STANDARD MONEY (*Monetary economics)

The money in which the central authority is entitled to make its final payments but it is not in fact doing so.

Denis H. Robertson

DEFLATION (*Monetary economics)

A time when most prices are falling.

Paul A. Samuelson

Shrinkage in the aggregate flow of money.

Gottfried Von Haberler

Inadequate total spending.

Abba P. Lerner

A general decline in money prices and wages.

Kenneth E. Boulding

A fall in the general price level.

W.W. Haines

A persistent downward movement in the price level regardless of cause.

Raymond P. Kent

A decrease in the price level.

Richard G. Lipsey

There are two much-used and much-abused terms. These are 'inflation' and 'deflation'. Nearly every writer puts his own definition on the terms, with the consequence that much confusion results. For the same reason no absolute authority can be claimed for the definitions here suggested. But the simplest and most useful definition would seem to be that inflation is a state in which the value of money is falling, i.e. prices are increasing. Deflation then becomes a state in which the value of money is rising, i.e. prices are falling. Both terms refer to price movements that is they are monetary terms. Inflation is usually but not absolutely associated with rising activity and employment, and deflation with the reverse.

Geoffrey Crowther

Lord Keynes remarked, "Inflation is unjust and deflation is inexpedient." Of the two deflation is worse. Today deflation being virtually defunct, the whole world, particularly the Third world, is engulfed in the crisis of price inflation.

Compiler

DEFLATIONARY GAP (*Monetary economics)

A certain volume of investment, public and private, is necessary for an economy to attain full employment. If the economy does not attain

full employment, then the deflationary gap is the amount of additional investment required to restore employment to the level of employment.

M.L. Seth

DEFLATIONARY MOTIVE (*Keynesian economics)

One of the reasons for holding money. It is the reverse of inflationary motive for avoiding holding money. It operates when there is general deflation. If it is expected that prices of goods and services in general are going to fall in terms of money (i.e. deflationary situation) then people who want to buy goods and services but have no immediate need of them would find it in their interests to hold back from purchases until their needs are pressing, and to hold money in the meantime.

A.C.L. Day

DEFLATIONARY POLICY (*Monetary economics)

Policy promoting a contraction in spending.

R.S. Sayers

DEFLATIONARY UNEMPLOYMENT (*Economics of labour)

The unemployment which results from a general insufficiency of jobs. It is often called 'involuntary' unemployment.

Abba P. Lerner

DEFLATOR (*Monetary economics)

Present price level divided by price level at some past date is termed as deflator.

Compiler

DEGRESSIVE TAX (*Public finance)

The tax is called degressive when the higher incomists do not make a due sacrifice, or when the burden imposed on them is relatively less.

K.K. Dewett

DELIVERY ORDER (*Commerce)

A document containing the owner's instructions respecting delivery of goods.

Compiler

DELTA (*Mathematical economics)

The fourth letter of the Greek Alphabet written d ; capital Δ. In calculus it is used to denote quantitative increases or decreases. In economics, the notation is employed to signify "change in" or "infinitesimal change".

To take an example, the "marginal propensity to consume", is written as $\frac{\Delta C}{\Delta Y}$.

Compiler

DEMAND (*Theory of value)

The demand for anything at a given price is the amount of it which will be bought per unit of time at that price. Demand means always demand at a price.

Frederic Benham

By demand we mean the various quantities of a given commodity or service which consumers would buy in one market in a given period of time at various prices or at various incomes or at various prices of related goods.

M.M. Bober

Demand for a goods is a schedule of the amounts that buyers would be willing to purchase at all possible prices at any one instant of time.

A.L. Meyers

Demand of a person for a commodity at a certain price is the amount he is willing to buy at that price.

Briggs and Jordan

The quantity that consumers are willing to buy.

A. Cairncross

Effective demand. Desire for something backed up by sufficient money with which to buy it.

J.L. Hanson

The whole schedule of amounts of any product that buyers will purchase at different prices during some stated time period.

G.L. Bach

The most generally accepted definition is demand for a goods is a schedule of quantities of it which will be bought (or which can be sold) at various hypothetical prices in a given market at a given time.

Anatol Murad

The schedule of amounts of a goods that the buyer will seek to purchase at a corresponding schedule of prices.

Havens, Henderson and Cammer

As used by Keynes, the term refers to aggregate demand of the whole economic system.

Dudley Dillard

The entire demand schedule—that is the actual amount that will be purchased at all possible prices at a given time.

Henry Grayson

(We must) mean by the word demand, the quantity demanded.

J.S. Mill

The amount of the article which will be bought at a given price.

or

Demand is a wish to purchase plus purchasing power.

Weston and Crew

Effective demand is sometimes defined as desire coupled with the ability to pay.

Richard T. Ely

Demand denotes effective desire coupled with ability to pay the current price for the desired object.

or

The desire for commodities and services, seeking its end by an offer of general purchasing power.

Seager

Demand means the quantity of a given article which would be taken at a given price.

F.A. Walker

The word demand has been defind in various ways. In the widest sense, it signifies a person's desire to procure a commodity or service for the satisfaction of his want. It is only in this sense that Crusoe can be said to have a demand for a thing.

The essential requisites for demand are : (1) the existence of a want, (2) consciousness of its existence, and (3) the desire to procure the object of the want. Demand thus understood can be satisfied when one is able to make necessary sacrifice to procure the object concerned. (The word *procure* as against the word *have* implies effort).

According to our definition, every man who desires to procure an object can be said to have a demand for it regardless of the fact whether he can make the necessary sacrifices to procure it or, in an-exchange economy, pay the price at which it is offered for sale.

J.K. Mehta

Demand in economics means demand backed up by enough money to pay for the goods demanded.

A.W. Stonier and D.C. Hague

There are three kinds of demand—price demand, income demand and cross demand. *Price demand* refers to the various quantities of a commodity or service which consumers will buy per unit of time and at certain hypothetical prices, assuming all other conditions remain the

same. *Income demand* refers to the different quantities of a goods or service which consumers will purchase at different levels of income, other things remaining the same. *Cross demand* refers to various amounts of commodity X which consumers will buy corresponding to various prices, not of X but of a commodity related to X, other determinants of demand remaining the same.

K.P.M. Sundharam and M.C. Vaish

DEMAND CURVE (*Theory of value)

The curve which shows the relation between the price of a commodity and the amount of that commodity the consumer wishes to purchase.

Richard G. Lipsey

Picturization of the demand schedule is called "demand curve".

Paul A. Samuelson

Curve which represents a list of prices at which various amounts of a certain commodity will be bought in a market during a given period of time.

Joan V. Robinson

A diagram on which the relation between the price and the amount bought is placed.

Frederic Benham

Geometrical transformation of arithmetic demand schedule. It portrays the demand-price relation. The demand curve is always so called, even when it happens to be a straight line. With unimportant exceptions, a demand curve always negatively slopes downward from left to right.

Compiler

The demand curve is among those devices of economic theory which have found frequent employment in applied economics. In its traditional form, it sums up the response of consumer demand to alternative prices of a product it can tell management what may be expected to happen to the demand for one of its outputs if the price of that item is changed.

The curve generally assuming a negative slope, depicts the situation at a single point in time, say, 4:33 P.M. The demand curve is temporary in that the shape and position of the curve are likely to change with the passage of time.

William J. Baumol

The "demand curve" is the geometrical expression of the relationship between quantity purchased and price, and our law of demand says that demand curves have a gegative slope.

George J. Stigler

Count Pietro Verri's (1728-97) hyperbolical demand law must be recorded as the first attempt to give a precise form to the demand curve: if p be price (in money), q quantity, and c a constant, then according to verri's law, $pq=c$. The constant-outlay demand curve is one of Verri's many original contributions.

J.A. Schumpeter

Demand curve has been familiar as Marshallian demand curve. The standard tool of partial analysis is Cournot's or Marshall's market demand curve. It represents the quantity of a commodity that buyers are willing to purchase at a given price as a function of this price alone; all other factors that affect their willingness to purchase, especially their income, are taken care of by the shape of the demand curve.

Usually we put the independent variable, in this case price, on the X-axis of a rectangular system of co-ordinates and the dependent variable, in this case the quantity, on the y-axis. This is in fact usually done in the French literature. But Marshall chose the X-axis for quantity co-ordinate and the Y-axis for price co-ordinate, and this is usually done in the Anglo-American literature.

Joseph A. Schumpeter

A.J. E.J. Dupuit of France was the first to use a demand curve.

Compiler

DEMAND DEPOSIT (*Monetary economics)

An obligation on the part of a bank to honour at sight (by payment in legal tender, if demanded) cheques or drafts against the amount to the credit of depositiors.

Raymond Bye

The obligation of a bank to pay a certain sum of money to a specified individual (the depositor) on demand.

W.W. Haines

DEMAND DEPOSITS, ADJUSTED (*Monetary economics)

The chequing—account portion of purchasing power in the hands of the public. It consists of gross deposits minus; cash items in process of collection, inter-bank deposits, government deposits and time deposits.

W.W. Haines

DEMAND FOR LIQUIDITY (*Keynesian economics)

Demand for money. It is also called liquidity preference.

Compiler

DEMAND FOR MONEY (*Keynesion economics)

Desire to hold money.

D.H. Robertson

The aggregate amount which the community wants to hold in the form of cash balances at home (pocket book money) or with the banks (cheque book money).

George N. Halm

The quantities of money the members of the nation demand to hold.

L.V. Chandler

Demand for money to hold, the demand for money balances. It is the inverse of velocity of circulation of money.

Frederic Benham

The demand for the existing stock of money which is available to hold.

A.W. Stonier and D.C. Hague

A demand for liquid assets due to the uncertainties of the near-future.

Briggs and Jordan

The demand for money arises from the fact that money performs the important functions of a medium of exchange and a store of value in the economy. People hold money for various reasons which have been grouped by Keynes under : (a) the transactions motive, (b) the precautionary motive, and (c) the speculative motive. In an article written in *The Economic Journal* in 1937, Keynes spoke of the fourth motive for holding cash. This he called the 'financial motive' which he regarded interest elastic. Thus the composite demand for money liquidity preference —is derived partly from the function of money as a medium of exchange and partly from the function of money as a store of value.

According to Classical economists, money was barren and people would hold only as much in the form of cash balances as was just sufficient to enable them to conduct economic transactions. In short the Classicists looked only at the transactions demand for money.

M.C. Vaish

Mr. Keynes distinguishes three motives of liquidity preference : (1) "the transaction motive, i.e., the need of cash for the current transaction of personal and business exchanges" ; (2) "the precautionary motive, i.e., the desire for security as to the future cash equivalent of a certain proportion of total resources" ; (3) "the speculative motive, i.e., the object of securing profit from knowing better than the market what the future will bring forth".

George N. Halm

(See also "liquidity preference"—Compiler.)

DEMAND FUNCTION (*Theory of value)

In a given market in a given period of time, the demand function for a commodity is the relation between the various amounts of the commodity that might be bought and the determinants of those amounts. The determinants are : (1) the possible prices of the commodity, (2) the incomes of the buyers, (3) their tastes, and (4) the prices of closely related commodities.

In general, the demand function for a commodity can be written as :

$$q=f\,(p, y, prw)$$

Where

q=quantity	pr=price of related goods
p=price	w=wants or tastes
y=income	

Demand function is one of many functions. Other important functions in price theory are cost functions, production functions and supply functions.

(The word "function" is just a shorthand way of referring to the things that determine demand, cost, production, and supply).

D.S. Watson

DEMAND LOAN (*Monetary economics)

A loan on a day-to-day basis (usually on stock collateral) which the bank could terminate at any time , but which it is more likely merely to discourage by raising the interest rate.

W.W. Haines

DEMAND PRICE (*Theory of value)

The price at which a given quantity would be demanded or consumed is the demand price of that quantity.

or

The price which will actually be obtained in the market for a given quantity.

Kenneth E. Boulding

DEMAND-PULL (*Theory of value)

The theory that prices are pulled up by an increase in demand usually due to an increase in money.

W.W. Haines

Increase in expenditure.

F. Benham

DEMAND-PULL INFLATION (*Monetary economics)

Demand-induced inflation. It represents a situation where the basic factor at work is the increase in demand for resources either from the government or the entrepreneurs of the households. The result is that it cannot be met by the currently available supply of output.

K.K. Dewett

One of the concepts of inflation. If increased demand is the main cause of the rise in prices, it is pull type inflation ; (if rising costs are the cause, it is called pushtype inflation).

George N. Halm

The demand-pull inflation analysis runs in terms of generalised excess demand that is sometimes described as "too much money chasing too few goods". According to the demand pull theory, inflation or price rise takes place due to the demand for goods and services exceeding their total supply at the current price.

According to Bent Hansen, a famous Danish economist, excess demand takes place both in the goods market and factor market.

M.C. Vaish

DEMAND SCHEDULE (*Theory of value)

A tabular statement or a full account of demand.

F. Benham

There exists at any one time a definite relation between the market price of a goods and the quantity demanded of that goods. This relationship between price and quantity demanded is called the "the demand schedule" or "demand curve".

Paul A. Samuelson

A demand schedule, one of Alfred Marshall's many contributions to the techniques of price theory, is a list of prices and quantities. At each price the corresponding quantity is the amount of the commodity that would be bought at that price. A demand schedule states the relation between the two variables of price and quantity. A demand schedule does not say what the price is. It only says what amounts would be bought at different possible prices.

Donald S. Watson

When the demand schedule is translated into geometry, it becomes demand curve.

Compiler

DEMAND THEOREM (THEORY) (*Theory of value)

The theory of demand explains the demand for a goods and the factors determining it. From time to time, different theories have been

advanced to explain consumer's demand for a goods and to derive a valid demand theorem.

Marginal utility analysis the oldest theory of demand which provides an explanation for consumers' demand for a product and derives the law of demand which establishes an inverse relationship between price and quantity demanded of the product. The marginal utility analysis assumes that : (1) utility is measurable, (2) utilities are independent, (3) marginal utility of money remains constant and (4) the marginal utility of a goods diminishes as an individual consumes more units of it. Another important hypothesis of the marginal utility analysis is the use of introspective method.

Recently Marshallian marginal utility approach to the theory of demand has been subjected to bitter criticisms and as a result some alternative theories, namely Indifference Curve Analysis, Samuelson's Revealed Preference Theory, Hicks's new Weak Ordering Theory etc. have been propounded.

Indifference curve method, first invented by F.Y. Edgeworth (1881) abandons the concept of cardinal utility and instead abopts the concept of ordinal utility.

Professor Samuelson's revealed preference theory is behaviouristic explanation of consumers' demand.

In 1956 in his *A Revision of Demand Theory*, Prof.J.R. Hicks influenced by Prof. Samuelson and "Samuelsonians"—Kenneth Arrow, I.M.D.Little, and H.S. Houthakker—developed econometric approach to the demand theorem, without using indifference curves.

H.L. Ahuja

The logical theory of demand derives from three different bases; marginal utility hypothesis, indifference-preference hypothesis, and revealed preference hypothesis. Although the theories based on the latter two hypotheses which are more scientific techniques, have gained ground considerably, the theory based on the marginal utility hypothesis has by no means fallen completely into disfavour. The demand theory needs further development.

H.K. Manmohan Singh

The demand theorem is : the theorem of inverse price-demand relationship. The different versions of the theorm are :

(1) The Marshallian marginal utility theory—introspective cardinalist (First stage).
(2) The Hicksian indifference-preference theory—introspective ordinalist (Second stage).
(3) Samuelson's Revealed preference analysis—behaviourist-ordinalist (Third stage).

(4) Statistical utility theory of Neumann-Morgenstern—behaviourist-cardinalist.

(5) Marginal preference theory of W.E. Armstrong—introspective cardinal-revivalist.

Tapas Majumdar

The term "demand theory" is a misnomer, for it is concerned with the analysis of the consumers' behaviour to the exclusion of the producer's behaviour. Further, it examines an individual's demand to the detriment of aggregate demand.

Apart from its nomenclatural defect, the theorem, notwithstanding its long and strenuous history of research and development, remains unsatisfactory. As Prof. H.K. Manmohan Singh aptly remarks, the consumers' demand theory needs further development. It would be an yeoman service to Economic Science if anyone could evolve a single consumer-cum-producer, micro-cum-macro demand theorem that could be applied to the developed and the developing economies.

Compiler

DEMOCRATIC PLANNING (*Economics of planning)

When planning is adopted under a democratic type of government, it is called democratic planning.

B.C. Tandon

An economic system in which the public sector and the private sector operate side by side. It leaves space for private capital. This system is adopted in non-socialist economies.

A.B. Bhattacharya

By democratic planning is meant a system of economic order in which the authority that vests in the state is based through and through on the support of the masses. In democratic planning, the targets are not imposed from above—from the harsh paternal hands of state on unwilling people—but on the contrary the people themselves through the 'parliament or legislature, through mutual discussions carried on under free atmosphere decide upon the need for planning, objectives of planning, technique of planning' and targets of production etc. Thus democratic planning is a planning by the consent of the people. Democratic planning reconciles the 20th century capitalism with government interference.

In India we have democratic planning. Though five-year plans are prepared by the Planning Commission, before preparing the draft of the plan, the commission gives widest possible publicity to its proposals with a view to inviting public reaction and opinion on its proposals. Economists, statesmen, and leaders of various political parties in the country are consulted before the final plan draft is prepared. Even after this the plan cannot be ready for execution unless parliament approves it.

It is often argued that planning and democracy are two incompatibles.

K.P. M. Sundharam & M.C. Vaish

DEMOCRATIC SOCIALISM (*Economics of development)

Liberal (or democratic) socialism is characterized by public ownership of at least strategically important meterial means of production, but also by free choice of occupation and consumers' sovereignty.

Liberal socialism wants to supplant the present private enterprise economy, because the latter's individualistic production is assumed to be "fundamentally blind, purposeless, irrational and incapable of satisfying many of the most urgent human needs" (Dickinson). It wants to achieve substantially greater equality of income distribution than is possible under the private enterprise system. The liberal socialist economy hopes to combine the features of conscious planning with individual freedom, so that a large social product can be more equally distributed according to the wishes of the cousumers.

George N. Halm

Socialism as a means to the emancipation of the proletariat without democracy is unthinkable. Socialism is for us inseparably connected with democracy. No socialism without democracy.

Karl Kautsky

India is a democratic socialistic economy. The historic Avadi (Tamil Nadu) session on January 21, 1955 adopted for India socialistic pattern of society as the objective of socio-economic policy.

Compiler

DEMOGRAPHY (*Demography)

Demography may be defined as the numerical analysis of the state and movement of human population inclusive of census enumeration and registration of vital processes and of whatever quantitative statistical analysis can be made of state and movement of population on the basis of fundamental census and registration data.

Encyclopaedia of Social Sciences

The science of population, a science which ascertains the state and studies movements chiefly births, deaths, marriages and migrations—of population and which endeavours to discover the laws which control these movements.

Levasseur

That branch of economics which deals with the study of birth rate and death-rate trends and their repercussions on population movements.

M.L. Seth

The term 'demography' was first employed by Achille Guillard in "Elements de Statistique Humaine ou Demographie Comparee" (1855). He regarded it as the mathematical knowledge of the general movements and of the physical, social, intellectual and moral conditions of population or still more broadly at the natural and social history of the human species.

The term is best established in France and Italy. The Germans and Scandinavians make slight use of it. Internationally, however, the term has secured standing.

Encyclopaedia of Social Sciences

The word has become current with rising interest in population studies as the name for this field of inquiry. In its French form the word (from the Greek "people" and "to write") was first used by Achille Guillard (1855). It was applied in French academic circles to statistics concerning the life conditions of people, especially those affecting health and mortality. In modern usage, it is sometimes restricted to the formal aspects of population study; i.e., the quantitative analysis of population structure and trends.

Encyclopaedia Britannica

DEMONETIZATION (*Monetary economics)

The term is employed in monetary economics in two distinct senses. First, the depriving or divesting of a metal of its standard monetary value. Second, the withdrawal of coin from circulation as, for example, in England that of all pre-Victoria gold coins under the provisions of the Coinage Act, 1889, and the Royal Proclamation of Nov. 22, 1890. Under the paper currency standard, the term demonetization implies a wholesale withdrawal of currency notes from circulation.

Under the first sense noted above: From 1663 to 1717, silver was the standard of value in England and gold coins circulated at their market value. The debasement and underrating of the silver coinage brought about the demonetization of silver in England as a standard of value and the substitution of gold. During the latter part of the 19th century, a great depreciation took place in the silver on account of increased production. This resulted in the abandonment or demonetization of the metal as a standard and to its use merely as a token money.

India attempted partial demonetization by promulgating on January 12, 1946 the High Denomination Bank Note (Demonetization) Ordinance. The holders of currency notes of Rs. 500, Rs. 1,000 and Rs. 10,000 denomination were asked to get their notes cashed at the Reserve Bank of India, scheduled banks or Government Treasury within 15 days in giving a declaration on a prescribed form.

Demonetization is a measure of unearthing black money.

Compiler

The term denotes either the disinvestment of a coin or metal of its standard monetary value, or its withdrawal from circulation. When

demonetization has occurred in the former sense, it has been frequently associated with a bimetallic monetary standard where one or the other of the metals identified with the standard of value has lost this equivalence.

In the U.S. the Coinage Act of 1873 demonetized silver and was denounced by its opponents as "the crime of '73".

Encyclopaedia Britannica

DEMONSTRATION EFFECT (*Economics of development)

It refers to poor countries trying to imitate the rich in a misconceived endeavour to industrialize without proper guidance by factor prices. A relatively poor country cannot afford a nuclear reactor that is mainly to serve as a status symbol.

George N. Halm

Concept originally devised by J.M. Duesenberry. In terms of demonstration effect, Ragnar Nurkse explains the failure of the saving ratio to rise over the long period.

G.M. Meier and R.E. Baldwin

It refers to the impact produced on an individual consumer when he sees a large variety of superior goods and decides to increase his expenditure on these goods even though his income has not changed (or, increased). According to James S. Duesenberry, the "demonstration effect" amends the Keynesian theory of consumption function, according to which an individual's consumption expenditure is related *only* to the level of his income.

M.L. Seth

The term "demonstration effect" was originally developed by Harvard University's James S. Duesenberry in his *Income Savings and the Theory of Consumer Behaviour* to demonstrate how consumers might be affected by the living standards of other consumers within the domestic economy. Ragnar Nurkse applied this notion to the international sphere.

Compiler

DEMURRAGE (*Commerce/Economics of transport)

The payment made to the transport authorities by the owner of goods for detaining the consignment beyond the stated time. In a way it is similar to warehousing charges.

Compiler

DENATIONALISATION (*Industrial economics)

It means returning a nationalised industry to the private enterprise as occured in Great Britain in the case of iron and steel industry.

M.L. Seth

DENSITY OF POPULATION (*Demography)

Average number of persons who live on one square kilometre.

The all India density of population per square kilometre in 1971 was 178 (excluding the population and area of Jammu and Kashmir). The Union Territory of Delhi had the highest density of population accounting for 2738 persons per sq. mile in the year 1971. The All India density of population per sq. km. in 1921 was 79.

Compiler

DEPENDENCE EFFECT (*Theory of value)

The term was coined by J.K. Galbraith. In an affluent society, according to him, "wants are increasing created by the process by which they are satisfied".

M.L. Seth

DEPENDENT VARIABLE (*Statistical methods)

A variable whose value is determined by the value(s) of other variables. For example in the equation, $y=3+2x$, once we assign a value to x, the value of y is determined and y is called the dependent variable.

Compiler

DEPOSIT (*Monetary economics)

The total amount up to which the cheque-book holder has the right to draw cheques.

D.H. Robertson

A bank's obligation to pay a sum of money on demand (demand deposit), or after a certain period of notice (time doposit).

W.W. Haines

Cheque money.

F.W. Taussig

The loans which are made to a bank.

Kenneth E. Boulding

The promise that the bank gives the depositor in exchange for the cash he deposits.

W.W. Haines

Bank deposits arise in two ways. When customers give legal tender money to the bank, it offers a book debt called a deposit. Such deposits are known as "primary deposits". Deposits also arise when customers are granted accommodation in the form of loans. These deposits are known as "derived deposits" and they add to the supply of money.

K. Sanyasiah and A.V. Ranganadhachary

Deposits are of three types—demand deposits, savings deposits and fixed deposits. *Demand deposits*—also known as current accounts—are those which can be withdrawn by the depositor at any time by means of cheques. The bank does not pay any interest on them. Demand deposits constitute the most important source of circulating medium of exchange. In the U.S. nearly 85 per cent of money consists of demand deposits and only 15 per cent is in the form of currency notes and coins. *Savings deposits* are those on which the bank pays a certain percentage of interest to the depositors but the bank places certain restrictions on their withdrawal. *Fixed deposits* are those which can be withdrawn only at the expiry of the period for which they have been entrusted to the bank.

K.P.M. Sundharam

Combining suggestion made by prof. C.A. Phillips and Mr. J.M. Keynes, we distinguish primary and derivative or passive and actively created deposits: (1) A bank can "create" deposits passively against the receipt of liquid resources (common money cheques and other claims on common money) from its depositors. These are primary deposits arising from the actual deposits of cash in a bank. (2) The bank can create deposits actively by creating claims against itself in favour of a borrower or of a seller of securities acquired by the bank. These actively created deposits are derivative deposits arising directly from loans or securities purchases.

George N. Halm

DEPOSIT INSURANCE CORPORATION (D.I.C.) (*Monetary economics)

According to the Reserve Bank of India, between 1914 and 1951 as many as 596 banks failed in India. The failure of the Palai Central Bank Ltd. (Kerala) and the Laxmi Bank Ltd. (Maharashtra) gave a rude shock to the stability of the banking system in the country. The R.B.I. was severely criticised for its ineffectiveness to exercise an effective control over the banking system in the country. The Government of India, therefore, set up the Deposit Insurance Corporation on January 1, 1962 with a view to protect the small depositors.

It is interesting to note that a proposal seeking to insure bank deposits was brought before the Rural Banking Enquiry Commission, 1950 but the Commission turned it down on the plea that banking had not developed much. The Shroff Committee on Finance for the Private Sector, 1954, recommended the creation of the Deposit Insurance Corporation. However, only after the failure of the above-mentioned two banks in 1960, the Government decided to take action and accordingly the Deposit Insurance Corporation Act (Passed on December 7,1961) and the D.I.C. came into existence on January 1,1962.

(Parenthetically it may be noted that a scheme for insuring bank deposits was first mooted in the U.S.A. under Banking Acts of 1933 and 1935, and the Federal Deposit Insurance Corporation was established).

The D.I.C. has an authorised capital of Rs. One crore wholly paid up by the R.B.I. In addition it can borrow from the R.B.I up to Rs. five crores.

Originally all commercial banks in India, which were covered by the Banking Companies Act, 1949 (later called Banking Regulation Act, 1949) as well as banks to be started were to be registered as insured banks. On July 17, 1967 the Deposit Insurance Corporation (Amendment) Bill was introduced to amend the D.I.C Act, 1961, So as to extend the scheme of deposit insurance to cover state, central and larger primary non-agricultural credit societies, i.e., urban co-operative banks with paid-up capital and reserves of Rs. one lakh or more.

The amount of the insurance cover per deposit in each bank provided by the corporation, which originally was Rs. 1500 has with effect from April 1, 1970 been raised to Rs. 10,000. Deposits of the foreign banking companies were not covered under the scheme.

The rate of premium to be paid by an insured bank to the corporation is fixed at five paise per annum for every Rs. 100 (originally it was 15 paise).

The head office of the corporation is at Bombay. The Governor of the R.B.I. is its Chairman. The main object of the corporation is to give a measure of protection to depositors, in particular, the small depositors, from the risk of loss of their deposits in the event of a bank's inability to meet its liability.

Compiler

DEPOSIT MONEY (*Monetary economics)

Bank deposits against which cheques can be drawn. It can also be called cheque book money.

Raymond Bye

Deposit money is also known as bank money or credit money as opposed to common money or money proper. In Great Britain deposit money "is more than four times as large as the total of bank notes in circulation, and many times larger than the total of all other forms of money".

Compiler

DEPOSIT RATE (*Monetary economics)

The rate allowed by the banks on money lodged with them on deposit account.

Norman Crump

DEPRECIATION (*International economics/Industrial economics)

Depreciation of currency refers to any drop in its foreign exchange rate relative to other currencies.

Paul A. Samuelson

A decline in the gold value or exchange value of a currency either within its support points or beyond them, or in the absence of support points.

Paul Einzig

By exchange depreciation, we mean a decline in the rate or exchange of one currency in terms of another. Depreciation is different from devaluation. While devaluation is the reduction of the value of a currency by the government, depreciation stands for automatic reduction in the value of a currency by market forces of demand and supply.

K.P.M. Sundharam

(In industrial economics) it refers to an accounting charge for the decline in value of an asset spread over its economic life. It covers a wear and tear from use and physical deterioration from age and exposure to the elements. It also includes obsolescence, i.e., loss of usefulness arising from the availability of newer and more efficient types of goods serving the same purpose. It does not cover losses from sudden and unexpected destruction of the usefulness of property as a result of fire, theft etc.

Encyclopaedia Britannica

With reference to industry the term implies the loss of value due to passage of time.

Fairchild, Buck and Slesinger

Wear and tear.

Joan V. Robinson

DEPRESSION (*Business cycles)

It means a state of affairs in which real income consumed or volume of consumption per head, real income produced or volume of production per head, and the rate of employment are falling, or are subnormal in the sense that there are idle resources and unused capacity, especially unused labour.

Gottfried Von Haberler

A period in which the premium that must be paid for not hoarding money exceeds the rate of return excepted from building new capital assets of almost every type.

Dudley Dillard

A glut of commodities or a dearth of money.

J.S. Mill

In Hayek's theory of business cycles, it may be defined as the period during which the structure of production is being shortened to its appropriate length.

James Arthur Estey

It is a term used to describe a period of heavy unemployment and stagnation of business activity. It is characterised by a sharp decline in production, little capital investment, contraction of credit, falling prices, a very high rate of business failures and mass unemployment. The biggest depression in world's history was that of 1929-33, which is known as Great Depression. The two longest depessions in U.S. history were those of 1873-79 (65 months), and 1929-33 (45 months).

M.L. Seth

It denotes a major downswing in the business cycle. It is characterised by sharply reduced industrial production, widespread unemployment and a general contraction of business activity.

The depression that began in 1929 was the most severe and widespread economic decline of the first half of the 20th century.

Encyclopaedia Britannica

A typical short trade cycle (i.e. Juglar cycle of nine to 10 years) has four more or less distinct phases—depression, recovery, prosperity, and recession. The four phases which are differently termed by different writers, constitute one cycle.

During depression economic activity in the community is at a low level. Unemployment is high. Incomes are low. Consumption expenditure is much reduced. Investment is low and there is little demand for producer's goods. Prices tend to go downwards. Enterprise is discouraged. Income, employment and output decline cumulatively owing to the multiplier effect.

After depression has continued for a time, due to the occurence of certain structural changes, the process of recovery starts.

J.K. Mitra

DERIVATIVE DEPOSITS (*Monetary economics)

The deposits which result directly from the lending and investing activities of individual banks with individuals, firms, and the government.

Dudley Dillard

Actively created deposits in contrast to passively created deposits. These are the deposits arising directly from loans or securities purchases. In this the total amount of purchasing power at the disposal of the community is clearly increased, and the creation of derivative deposits is identical with what is commonly called the creation of credit.

G.N. Halm

(See also "deposit"—Compiler)

DERIVED DEMAND (*Theory of value)

The term refers to the fact that when profit-seeking firms exercise a demand for a factor of production, they do so because that permits them to produce a goods which consumers are willing to pay for now or in the future. The demand for the factor is thus derived ultimately from consumer's desires.

P.A. Samuelson

The term *derived demand* is frequently used where demand for one commodity is the direct result of the demand for another, more particularly in the case of the demand for factors of production.

J.L. Hanson

Demand for a factor of production.

R.G. Lipsey

It is often said that the demand for labour is a derived demand because labour is only demanded for what it will produce. The demand for labour is 'derived' from the demand for the product it is helping to make.

The demand for every factor of production is a *derived* demand. Factors of production are only useful because they can help to produce consumer goods and the demand for factors is 'derived' from the direct demand for those consumer goods.

Demand for investment goods is a *derived* demand which depends ultimately on current expenditure on consumption.

The full title of accelerator is the principle of acceleration of derived demand. This principle which dates back to 1914 and beyond, says that if the demand for any consumption goods increases, that will raise the demand (the 'derived' demand) for the factor of production, perhaps a machine that makes, it.

A.W. Stonier and D.C. Hague

Business demand for commodities is a *derived demand* derived from consumer demand.

D.S. Watson

DESCRIPTIVE ECONOMICS (*Economic methodology)

The economics of the Historical School is described as descriptive economics in contrast to formalistic economics of the classical and neoclassical schools.

S.K. Srivastava

Economics can be divided into three parts. These are—descriptive economics, economic theory and applied economics. In descriptive economics one collects-together all the relevant facts about particular topics; for example, Indian cotton industry. (In economic theory, or economic analysis

as it is often called, one gives a simplified explanation of the way in which an economic system works and of the important features of such a system. Applied economics attempts to the use the general framework of analysis provided by economic theory to explain the causes and significance of events reported by descriptive economists).

A.W. Stonier and D.C. Hague

DESHMUKH, CHINTAMAN DWARAKANATH (1896-1982) (*History of economic thought)

World-famous Indian expert in financial matters, and intellectual giant. Born on January 15, 1896, Chintamanrao Deshmukh, popularly called "C.D." was educated at Elphinstone College, Bombay and Jesus College, Cambridge. Deshmukh, B.A. (Cantab.) and Bar-at-law (U.K.), was awarded Honorary Doctor of Laws by the Universities of Princeton, New Jersey, Leicester, Mysore and Osmania; Honorary Doctors of Science by the Universities of Calcutta, Karnataka, and Indian Statistical Institute, Calcutta; Honorary Doctors of Literature by the Universities of Nagpur and Panjab.

In his brilliant administrative career, he held many important positions. He served as the Governor of the Reserve Bank of India between 1943 and 1949, and as the Union Finance Minister of India between 1950 and 1956. The other posts which he held include:

(1) Chairman, Administrative Staff College, Hyderabad,
(2) Vice Chairman, Board of Trustees of the UN Institute for Training and Research,
(3) President, India International Centre,
(4) Member, Court of Aligarh Muslim University,
(5) President, Indian Statistical Institute,
(6) Chairman, National Book Trust,
(7) Financial Secretary, C.P. and Berar,
(8) Joint Secretary, GOI, Department of Education, Health and Lands,
(9) India's delegate to Brettonwoods,
(10) Governor for India on the I.M.F. and the I.B.R.D.,
(11) Financial Representative of India in Europe and America,
(12) Member, National Planning Commission,
(13) Chairman, the I.M.F. and the I.B.R.D.,
(14) Chairman, University Grants Commission,
(15) Chairman, Indian Institute of Public Administration,
(16) Vice-Chancellor, Delhi University.

Mr. Deshmukh died on October 2, 1982.

Compiler

DESHMUKH AWARD (*Public finance)

A name given to C.D. Deshmukh's recommendations regarding the provincial (India) share of income tax and jute export duty.

Consequent upon the partition of India on August 15, 1947, the provinces—Bengal, the Punjab and Assam were divided, and the Government of India invited Deshmukh in November 1949 to suggest modifications in the scheme of allocation of income tax and jute export duty. He was asked to determine the share of the above mentioned provinces, since they had lost some parts of their territories to Pakistan, and to reallocate the surplus among other provinces.

Deshmukh did not propose any change in the basic principles that were laid down under the Niemeyer Award (i.e. recommendations by Sir Otto Niemeyer made in 1936) and only suggested such alterations as were necessitated by the partition.

The Award was accepted by the Government, and it (award) lasted till the First Finance Commission was appointed in 1951.

Compiler

DESIGNED (OR ACTIVE) INVESTMENT (*Business cycles)

Mr. R.G. Hawtrey distinguishes between "designed or active investment" and "undesigned or passive investment". They are equivalent to Bertil Ohlin's *ex ante* and *ex post* investment. Hawtrey holds that the sum of designed and undesigned investment is total investment, i.e., the increment of unused wealth.

Gottfried Von Haberler

By the term I mean the voluntary acquisition of items of unconsumed wealth in the expectation that they will be remunerative.

Ralph George Hawtrey

DESIRE (*Theory of value)

Want felt in relation to particular thing.

Briggs and Jordan

Ineffective or potential or unexpressed demand. When desire is backed up by readiness and ability to pay, it becomes demand.

Compiler

DETAILED PLANNING (*Economics of planning)

Economic planning may be general as well as detailed. (General planning concerns itself with major issues only. It lays down only the broad outlines of future development). Detailed planning, on the contrary, not only lays down guiding principles but also furnishes details as to how those principles are to be given practical shape.

Prof. F. Zweig prefers general planning to detailed planning on the ground that "the apparatus of detailed planning is, as a rule, more

bureaucratic, heavier and slower and leads to over-rigidity and overcharging of production". The plans of Eastern European countries, excepting Yugoslavia, are detailed plans.

Even in some mixed economies the national plans are detailed. For example Chile's Ten Year Plan document consisted of six volumes divided into 20 books running into several thousand pages, while Indonesia's Eight-Year Plan document ran into 4,638 pages.

M.L. Seth

DETERMINANTS OF DEMAND (*Theory of value)

The consumer's final choice (i.e. demand) will depend on (a) his individual circumstances and tastes (age, sex, education, cultural background, size of family); (b) his personal income; (c) the part of his income that he wants to spend on consumer goods (his personal income minus his savings); (d) the prices of commodities and services which he is actually buying; and (e) the prices of other commodities and services whose purchases he is considering.

George N. Halm

The determinants of demand are: (1) the possible prices of the commodity, (2) the incomes of the buyers, (3) their tastes, and (4) the prices of closely related commodities.

D.S. Watson

We may add a few more determinants, *viz.*, demonstration effect, government's fiscal and commercial policies, future expectations as regards prices and availability of the goods, religious festivals and system of government.

Compiler

DEUTCHE BUNDES BANK (*Monetary economics)

The central bank of Germany.

Compiler

DEVALUATION (*Monetary economics)

Devaluation usually refers to a change in currency's value relative to gold and usually to a notable and rare event of some magnitude rather than to a day-to-day fluctuation.

Paul A. Samuelson

The adoption of a new and lower parity of exchange; the price of gold in terms of the currency is increased and the value of the currency, therefore, in terms of either gold or other currencies is reduced.

A. Cairncross

A downward change in the official party of an exchange, or of an exchange rate at which it had been pegged for some time.

Paul Einzig

A devaluation clearly is necessary when a country runs a consistent deficit on its international trading account since it is building up debts it is unable to pay. This can stem from domestic inflation, making exports uncompetitive in international terms, from sheer industrial inefficiency or, whisper it, from bad management of the economy by politicians prepared to place short-term electoral considerations before long-term economic stability.

When you devalue, what you sell becomes cheaper for others to buy, the hope being, that you will sell much more, thus aiding the asset side, and buy less in terms of imports, since they will cost that much more from countries not devaluing with you.

But when a country tries to fend off devaluation—something of a national humiliation—an agency like the Bank for International Settlement in Basle, a kind of central bankers' bank, is prepared (as is the IMF) to give time loans and, increasingly of late, to assist in counteracting speculative moves against the currency of an ailing economy by recycling so-called "hot" money.

Dominick J. Coyle

Devaluation is a legal reduction of the value of the currency in terms of the standard currency (gold) or of other currencies; an existing depreciation is consolidated. Devaluation changes *ipso facto* exchange rates, unless a simultaneous, equally heavy devaluation is carried out abroad. [A given rate of devaluation (e.g. 50 p.c.) brings about a still more marked rise in exchange rates (100 p.c.). In 1949, the devaluation of the Belgian currency by 12.3 p.c. in terms of the dollar resulted in a 14.1 p.c. rise in the rate of the dollar]. While inflation may take a country unaware, so to speak, devaluation calls for a government decision. It becomes imperative in order to maintain competitive power on export markets.

M.A.G. Van Meerhaeghe

In the IMF era there has been a deluge of currency devaluations. During 1948-67 as many as 109 countries have devalued their money units. Of these 24 countries have devalued their currencies by more than 75 per cent while in 38 countries, devaluation ranged between 40-75 per cent. The maximum number of countries (36) devaluing their currencies belonged to Africa with Latin America coming next with 23 countries. During the same period 14 Asian (excluding Japan) countries and 20 European countries devalued their currencies.

M.C. Vaish

Since independence in August 1947, the Indian rupee has been devalued twice: first by 30.5 per cent, on September 18, 1949 when the late Mr. John Matthai was the Union Finance Minister; and the second by 36.5 per cent on June 5/6, 1966 when the late Mr. Sachin Choudhri was

the Finance Minister. The first devaluation was the Hobson's choice for India, for over 75 per cent of India's export trade being with the countries of Sterling area, Britain had devalued £. In other words, if India had not fallen in line with England, her (India's) export trade would have received a severe jolt. However, the second devaluation was neither necessary nor successful.

In the meanwhile, it may be noted that the British Pound sterling has also so far undergone two major surgical operations (devaluation)—once in September, 1949 by about 30 per cent and again by 14.3 per cent on November 18, 1967. In June 1934 the U.S. dollar was officially devalued by 59 p.c. It was again devalued on December 18, 1971 by 7.9 per cent. The price of gold was raised by 8.57 per cent to \$ 38 from \$ 35 per ounce. The new rate of exchange was \$ 1=Rs. 7.279.

Compiler

DEVELOPED COUNTRIES (*Economics of development)

According to the UNO, the following 27 countries are classified as the developed countries in contrast to under-developed or developing countries: (1) Australia, (2) Austria, (3) Belgium, (4) Canada, (5) Czechoslovakia, (6) Denmark, (7) Finland, (8) France (9) Germany (West), (10) Germany (East), (11) Great Britain, (12) Hungary, (13) Iceland, (14) Ireland, (15) Itlay, (16) Japan, (17) Luxembourg, (18) Netherlands, (19) New Zealand, (20) Norway, (21) Poland, (22) Rumania, (23) South Africa, (24) Sweden, (25) Switzerland, (26) U.S.S.R. and (27) U.S.A.

According to the UNO there are 77 underdeveloped countries. They are termed as the Third World. The Third World comprises: Albania, Bulgaria, Spain, Greece, Portugal, Yugoslovia, the whole of Africa (with the exception of South Africa), Latin America and Asia (excepting Japan).

Developed countries are also called "Affluent societies" or rich countries.

The World Development Report classifies the countries of the world into (I) low income countries, (ii) middle income countries, (iii) industrialised countries, (iv) Capital-surplus oil exporters, and (v) centrally planned economies.

Compiler

The developed countries—North America, Western Europe, Australia, New Zealand, South Africa and Japan—together account for 84 per cent of the world production (excluding the Communist countries) although inhabited by only 33 per cent of the world's population. (In many cases, the epithet "underdeveloped" is applied to countries whose annual *per capita* national product or *per capita* domestic product does not attain a quarter of that for the United States. This qualification is a little misleading).

M.A.G. Van Meerhaeghe

DEVELOPING COUNTRY (*Economics of development)

The term 'developing country' is not satisfactory one, because many economies have achieved no progress for several decades. It would be better to speak of poor and rich countries, but for psychological reasons this is eschewed. In our view, the designation "less-developed" countries or 'new states" is preferable.

(The basis adopted for determining the degree of development is the *per capita* national income, *per capita* national product or *per capita* domestic product).

M.A.G. Van Meerhaeghe

The term 'developing country' is an honourable epithet for an under-developed or even undeveloped country. To put it straight, a developing country is a poor economy. The other synonyms are a backward country, a less developed economy, an emerging nation and, and expanding society.

See also "underdeveloped country".

Compiler

DEVELOPMENT (*Economics of development)

Economic growth or development consists in a continuous rise in the *per capita* net real national product. If the national product and the population increase to the same extent, economic development is in our view out of the question. (Some authors nevertheless draw a distinction between economic growth (production and population increase at the same rate) and economic development (production increases at a faster rather than population). However, we use both the terms synonymously.

M.A.G. Van Meerhaeghe

DEVELOPMENT BANKS (*Monetary economics)

William Diamond and Shirley Bosky term industrial finance and development corporations as development banks.

In India we have land development banks which were previously called land mortgage banks. These banks specialise in long-term agricultural finance in distinction to coöperative agricultural credit societies that deal in short term finance.

Compiler

DIAGNOSIS (*Research methodology)

The description through the data of events that are taking place and the analysis of the forces underlying these events.

It is the second phase of research operation (investigation and prognosis being the first and the final phases respectively).

Robert Ferber and P.T. Verdoorn

DIAGNOSTIC LAG (*Business cycles)

Compared with automatic stabilizers, discretionary anti-depression policies suffer from a serious handicap : lags in the adoption and operation

of discretionary policies. These lage are of different types. First is the diagnostic lag. If anti-depression policies are to be adopted promptly, the minimum requirement is that the onset and the end of a depression be promptly diagnosed.

Gottfried Von Haberler

DIAGONAL INTEGRATION (*Industrial economics)

In this, auxiliary goods or services required for the main process or production in an industrial concern are provided inside that organisation.

It is also known as service integration.

Other types of industrial integrations are : (1) lateral or allied, (2) convergent lateral, and (3) divergent lateral.

S.C. Kuchhal

DIALECTICAL MATERIALISM (*Marxian economics)

Karl Marx's view of history as a conflict between opposites, present conditions being due to a class struggle between the capitalists, whose aim is private profit, and the workers, who resist exploitation.

Chamber's Twentieth Century Dictionary

Official Marxist philosophy was dialectical materialism. It was essentially a description of how change in human affairs, and even in the physical universe, occurred.

R. Lekachman

DICTATORSHIP OF PROLETARIAT (*Marxian economics)

The term coined by Karl Marx (and his associate, Friedrich Engels) in *Communist Manifesto* (1848) to advert to the eventual phenomenon of the downfall of the bourgeoisie (i.e. the class of modern capitalists, the owners of the material means of production and employers of wage labour) and the victory of the proletariat (proletarians) (i.e. the modern wage labourers). This prophesy of Marx has been falsified by history.

Compiler

DIET PROBLEM (*Mathematical economics)

The diet problem was one of the first to be tackled by the linear programming techniques. The problem is to minimize the cost of a diet that has to meet minimum nutritional requirements, which are the constraints. Happily, the diets in question are for animals.

D.S. Watson

DIFFERENTIAL CALCULUS (*Mathematical economics)

The study of the variation of a function with respect to change in the independent variable or variables by means of the concepts of derivative and differential, in particular, the study of slopes of curves, nonuniform velocities, accelerations, forces, approximations to the values of a function, maximum and minimum values of quantities etc.

James and James Mathematics Dictionary

Differential calculus, a branch of mathematics, proceeds by operating, conceptually, with smaller and smaller units and taking as the value of the marginal fraction the limit of the value of these fractions as the magnitude of the denominator decreases indefinitely. The notion of a limit number which is approached by an infinite sequence of numbers and the definition of the derivative is the foundation of differential calculus.

In economics, the differential calculus has had many fruitful applications. In fact, economists have invented a special terminology for this technique, referring to it as marginal analysis. This application arises naturally in an investigation of the decision making of business firms, consumers, and other economic events.

Economists have adopted the following terminology :

Marginal utility is the name given to $\frac{dU}{dQ}$

Marginal product refers to $\frac{dQ}{dZ}$

Marginal cost refers to $\frac{dC}{dQ}$

Marginal revenue refers to $\frac{d\,(PQ)}{dQ}$

William J. Baumol

F.A. Von Hayek's teachers, the Austrian utility theorists, by operating the concept of marginal utility actually discovered the calculus.

J.A. Schumpeter

DIFFERENTIAL EXPENDITURE INCIDENCE (*Public finance)

When an increase in public expenditure in some direction is cancelled by a decrease in expenditure in some other direction, the resulting distributional effects of such public expenditure may be termed as differential expenditure incidence.

Andley and Sundharam

DIFFERENTIAL RENT (*Theory of value)

The rent which arises because of differences in the fertility and situation of different lands.

David Ricardo with whom started the discussion of rent was interested in differential rent and not scarcity rent which results from the scarcity of homogeneous land.

A.W. Stonier and D.C. Hague

According to the Classical (i.e. Ricardian) theory, rent arises due to two reasons. Firstly, if land is homogeneous i.e., of uniform quality, the scarcity of land relative to demand will give rise to what Ricardo calls scarcity rent. Second, when land differs in quality i.e., in fertility and

location, the scarcity of superior grades of land will give rise to differential rent. In fact, Ricardo was more interested in showing the emergence of differential rent.

H.L. Ahuja

In his theory, David Ricardo dealt with differential rent. According to him, rent was a differential surplus which accrued to superior lands over inferior lands, or which was enjoyed by the more fertile lands over the less fertile lands. Differences in the fertility of land was the main factor giving rise to rent. If all lands had been homogeneous, rent would not have arisen according to Ricardo.

The differential rent arises in both intensive and extensive cultivations, according to the Ricardian theory.

M.L. Seth

Rent arising out of extension of marginal cultivation due to the scarcity of superior land the growth of population, is known as differential rent. Ricardo conceived of rent only in this sense.

(The rent arising out of intensive cultivation of land is known as scarcity rent, as shortage of land is the cause or rent. But there is little difference between differential rent and scarcity rent, because differential rent arises out of scarcity of superior land, and scarcity rent arises out the differences in fertility of land consequent upon the additional use of other factors.)

T.N. Sachdeva

In a sense, all rents are scarcity rents and all rents are differential rents.

Alfred Marshall

The rent on a more fertile piece of land will be considerably higher than that on a barren area. Land desirably located in the centre of a large city, rents for much more than land in a sparsely inhabited area. Skilled labour receives higher wages than unskilled labour. A new, efficient factory will sell for more than one which is obsolete.

This bonus to a more efficient unit of an input is sometimes called the *differential rent.* The terminology harks back to the Classical rent theory.

William J. Baumol

DIFFERENTIAL TAX INCIDENCE (*Public finance)

It refers to the distributional changes that result when one tax is substituted for another, assuming that the money yield of the two taxes is the same. Here the public expenditure should be held constant.

Andley and Sundharam

The distributional changes that result as one tax is substituted for other are referred to as the differential tax incidence. However, it will be

well to define differential incidence as the difference in the distributional results of two tax policies that provide for equal yield in real terms ; or, to put it differently, that provide for money yields adequate to finance a given set of real expenditures of government under such absolute or relative prices as prevail under each type of tax.

Compiler

The concept of differential incidence has the advantage of not being inherently associated with an inflation or deflation process, whereas, specific incidence is (Specific tax incidence refers to the resulting alterations in distribution as a change in a particular tax function, such as a change in the rates of personal income tax).

The concept of differential incidence was used first by Knut Wicksell in 1896. He proposed differential incidence as a means of holding the expenditure side of the budget constant while considering tax changes.

Richard A. Musgrave

DILLARD, DUDLEY (*History of economic thought)

Professor and Chairman, Department of Economics, University of Maryland; Member, Board of Editors, *Journal of Economic History*; Member, A.E.A.; Author of *The Economics of John Maynard Keynes* (1948) (Japanese, Spanish, Italian editions); published articles in leading economic journals.

It was Dudley Dillard who enabled the non-professional economists and the students of economics to understand Keynes' terse *General Theory* by simplifying it in a masterly manner in his *The Economics of John Maynard Keynes.*

Compiler

DIMINISHING RETURNS (*Theory of value)

A rising cost curve of a commodity is sometimes described as diminishing returns.

Prof. A.C. Pigou recommends the use of the phrase "increasing supply price" on the ground that the word "cost" is ambiguous.

Joan V. Robinson

DIRECT ACTION (*Monetary economics)

Direct dealing with the individual banks. In this the central bank may refuse to rediscount the bills of certain banks whose policy goes contrary to the maintenance of stable credit conditions, or refuse to make further advances to certain banks who are already indebted to the central bank.

A.K. Basu

Direct action embraces only those cases where the central bank decides to take such coercive measures against an offending commerical or other financial institution as it can within the limits of its powers and functions, or to issue directives to banks generally concerning their lending and investment operations under special statutory authority.

Direct action may take the form either of refusal on the part of the central bank to rediscount for banks whose credit policy is regarded as being inconsistent with the maintenance of sound credit conditions, or a refusal to grant further rediscounts to banks whose borrowings from the central bank are considered to be excessive in relation to their capital and reserves, or to their proportionate share (as compared with the other banks) of the resources of the central bank.

Direct action has derived its designation from the fact that it implies direct dealing with individual banks.

M.H. de Kock

Direct action is the extreme weapon of credit control used by the Central Bank against the offending individual member banks. It is punitive in nature.

Compiler

DIRECT CONTROLS (*Monetary economics/Economics of development)

Regulations of monetary authorities that restrict the terms under which loans may be made for specific purposes, such as consumer instalment purposes.

W.W. Haines

In a closed economy, there are three main kinds of instruments that can be used in attempting to maintain economic stability (stabilization may imply stabilization of money wages, of prices, or of employment). There are monetary controls, fiscal controls, and direct controls. (Monetary controls are those which operate through the banking system and/or the rate of interest. Fiscal controls are those which operate through changes in the taxation and expenditure policies of the government). Direct controls are controls imposed by the government which expressly forbid or restrict certain kinds of economic activity.

Direct controls need a cumbersome administrative organisation if they are to work. They are invariably negative—they stop someone doing something he would otherwise do. They can be easily operated in a discriminatory manner. They tend to inhibit innovations. They are very likely to lead to the harmful effects of suppressed inflation.

A.C.L. Day

DIRECT COSTS (*Theory of value)

Prime or variable costs. These costs represent all those costs which can be altered in the short-run as output alters.

A.C. Stonier and D.C. Hague

DIRECT MONEY BURDEN (*Public finance)

It refers to the actual amount of tax in terms of money collected.

Andley and Sundharam

DIRECT PRODUCTION (*Theory of value)

The opposite of roundabout or indirect production which characterises the modern capitalist economy.

Compiler

At present we are accustomed to tools and machinery of every description; yet at some stage long before the beginning of history, man must have been dependent on the unaided efforts of his hand. Such a situation where brute strength or cunning is relied upon to secure the means of subsistence may be called production.

Fairchild, Buck and Slesinger

DIRECT REAL BURDEN (*Public finance)

It relates to the sacrifice of economic welfare which the tax entails for the tax-payer.

Andley and Sundharam

DIRECT TAX (*Public finance)

Tax which is levied on permanent and recurring occasions.

Bastable

Tax which is paid by the person on whom it is legally imposed.

Hugh Dalton

Tax which is paid once and for all by the person on whom it is levied, without being added to the prices of goods.

Raymond Bye

Tax which is demanded from the very persons, who, it is intended or desired, should pay it.

Andley and Sundharam

The terms "direct" and "indirect" taxes, which have cut such a figure in court decisions in the past, are finally distinguishable in meaning only in terms of shiftability. Direct taxes are not shifted, while indirect types are. The use of terms is declining.

Philip E. Taylor

The classification of taxes into direct and indirect has a long history. In the *Principles of Political Economy* J.S. Mill distinguished between direct and indirect taxes by asking whether a tax was actually paid over by the people on whom the burden fell or not. Direct taxes could, according to him, be levied on expenditure as well as income. A tax on house-services, for instance, would be rated as direct if paid by the tenant but as indirect if paid by the owner. Mill's distinction is logical enough but it is extremely hard to apply.

Today the distinction between direct and indirect taxes is more commonly drawn by reference to the *basis* of assessment rather than the *point* of assessment. Those taxes which are based on the receipt of income are termed direct, (whereas those levied on expenditure are termed indirect). Income tax, profits tax and capital gains tax are therefore direct; customs duties, excise taxes and stamp duties; (based on capital expenditure) are indrect.

A.R. Prest

DIRECT TAXES ADMINISTRATION ENQUIRY COMMITTEE (*Public finance)

The Committee appointed by the Government of India under the chairmanship of Mr. Mahavir Tyagi submitted its report in December, 1959. Aimining at the twin objectives of encouraging the honest and deterently punishing the tax evaders, the Committee argued for more efficient collection of taxes. The accepted recommendations were incorporated in the budget for 1961-62.

Compiler

DIRECT TAXES ENQUIRY COMMITTEE (*Public finance)

The Direct Taxes Enquiry Committee popularly known as the the Wanchoo Committee appointed by the Government of India under the chairmanship of Mr. Justice K.N. Wanchoo, a retired Chief Justice of the Supreme Court of India submitted its report in December 1971. The report was presented to the Lok Sabha on March 20, 1972.

The Committee which was asked to study the problems of black money, tax evasion, tax avoidance and tax arrears made recommendations on each of them.

The Committee said that the high rates of taxation was the first and foremost reason for tax evasion. It said that the high level of taxation left the government with little scope for manoeuvrability for raising additional resources. It recommended that the tax burden on the middle class should be reduced and the maximum rate of income tax, including surcharge, should be brought down from the then existing level of 97.75 p.c. to 75 p.c. It suggested the minimisation of controls and licences and the regulations of donations to political parties. It found the bearer bond scheme and the swiss-type bank accounts unsuitable as measures to check black money and tax evasion. The report estimated the magnitude of black money for 1968-69 at Rs. 7,000 crore. It recommended the setting up of a separate body within the finance department to be called "direct taxes settlement tribunal" to ensure fair, prompt and independent settlement with the tax-payers.

In an important finding, the Committee said, "Agricultural income which is at present outside the central tax net, offers plenty of scope for camouflaging black money". It observed, "agriculture should also contribute to the national exchequer in much the same way as other sectors are doing. It was also necessary on grounds of equity and distributive

justice." It suggested that the constitution of India should be amended empowering the union government to impose taxes on agricultural income. It recommended the substitution of sales tax by excise duteis as far as possible to minimise the cascading effect on prices.

The Committee recommended permanent account numbers for tax-payers and a co-ordination between the banks and the income-tax department. It suggested tightening of the provisions of the Stamp Act to deter investment of unaccounted money in immovable property. It recommended that all the scheduled banks in the country should be barred from providing credit facilities above Rs. 25,000 to the tax-evaders.

The Committee proposed a number of measures to tackle the problem of tax arrears the magnitude of which has no parallel elsewhere in the world. The measures included requisitioning of the intelligence wing to uncover secret assets of defaulters, greater use of powers to send defaulters to civil prison and gearing up of the tax collecting machinery.

Among the new incentives proposed for the industry by the committee were exemption for new industrial concerns from payment of capital levy for five years from the date of their incorporation and abolition of sur-tax on companies.

It observed, "the vulgar display of wealth which is evidenced by ostentatious living and lavish expenditure on weddings and festivals is the scourge of money".

Messers M.P. Chitale, D.K. Rangnekar and S. Prakash were the members of the Committee.

The government accepted the recommendations of the Committee with minor modifications, as reflected by the union budget for 1974-75. The maximum marginal rate of income tax including surcharge was lowered to 77 per cent from 97.75 per cent on the income slab of over Rs. 70,000. However the government dismissed the major recommendation of bringing the agricultural income under the pale of income tax.

Compiler

DISCIPLINES (→General economics)

Systematic bodies of Knowledge that contain statements of laws and principles universally accepted as correct. (Here the word 'correct' is used in an exclusive, rather than in an absolute sense).

G.W. Forster and M.C. Leager

DISCOUNT (→Monetary economics)

The difference between the sum paid by the bank for the bill and the sum which the bill says is payable at the named date.

R.S. Sayers

The margin between the ready money paid and the face value of the bill (which is the amount payble by the debtor at maturity). Discount is calculated at a rate per cent, per annum on the maturity value.

R.S. Sayers

Central bank's loan to its member banks.

P.A. Samuelson

Bill of exchange. So called because it bears no rate of interest but is bought and sold at a discount.

Geoffrey Crowther

Discounts are bills of exchange which the banks have bought or technically discounted.

Frederic Benham

DISCOUNT BROKER (*Monetary economics)

A man who neither buys nor sells discounts (i.e. bills of exchange) but deals as an intermediary. He puts those who have bills to sell in touch with those who have bills to buy.

Geoffrey Crowther

DISCOUNT HOUSE (*Monetary economics)

A commercial institution which borrows money from the banks and other institutions with money to lend on short term and use that money to buy and hold bills of exchange.

R.S. Sayers

DISCOUNT MARKET (*Monetary economics)

The market for bills of exchange.

J.L. Hanson

It consists of a handful of highly specialised firms which deal in bills of exchange.

R.S. Sayers

One which lives by borrowing liquid funds for the purpose of investment in bills with the right of recourse in times of need to the Central Bank. It usually signifies discount houses.

A.K. Basu

The discount market consists of twelve firms, and is a feature peculiar to the English banking system; it has no real counterpart in any other system, although there have been some attempts to imitate it elsewhere, with little success. The importance of discount market in the English system is that, it acts as an intermediary between the bank of England and the commercial banks. It is through the agency of the discount market that the Bank of England assistance to the commercial banking system (in carrying out the central bank duty of acting as lender of last resort) has traditionally been channelled.

A.C.L. Day

DISCOUNT (REDISCOUNT) RATE (*Monetary economics)

The charge levied by central banks on loans to member banks.

W.W. Haines

Discount rate is another name for bank rate.

See "Bank rate"

Compiler

DISCOUNT RATE POLICY (*Monetary economics)

Discount rate policy has been defined "as the varying of the terms and of the conditions, in the broadest sense, under which the market may have temporary access to the central bank through discount of selected short-term assets or through secured advances." Thus, the discount rate policy seeks to affect both the cost and availability of credit.

Reserve Bank of India

Another name for bank rate policy. The Bank of England was first central bank in the world to evolve and use discount rate as a technique of credit control. It employed this quantitative weapon first in 1839. Since then it is used by the central banks all over the world.

See "Bank rate policy."

Compiler

DISCOUNTED MARGINAL PRODUCTIVITY THEORY OF WAGES (*Theory of value)

The theory advanced by F.W. Taussig is a modified version of the marginal productivity theory of distribution.

According to this theory, the labourer cannot get the full amount of the marginal output (i.e. wage cannot be equal to the value of marginal net revenue product of his labour). This is because production takes time and the final product of labour cannot be obtained immediately. But the workers are to be paid meanwhile by the employer. Therefore, the employer, according to the theory, does not pay the full amount of expected marginal product; he deducts a certain percentage from the final output to compensate himself for the risk in making the advance. Taussig says that this deduction is made at the current rate of interest. Wages, thus equal the total product of labour on the marginal land or in the marginal firm minus the amount discounted at the current rate of interest.

K.K. Dewett

DISCOUNTING (*Monetary economics)

The process of handling round the endorsed bill in exchange for ready money before maturity (due date).

R.S. Sayers

DISCOUNTS AND ADVANCES (*Monetary economics)

The process by which a Federal Reserve Bank (U.S.A.) lends to member banks; also the assets that the Reserve Bank (U.S.A) acquires

the exchange for the funds advanced. When a bank borrows on the basis of commercial paper that it holds, it is a discount, when bank borrows on its own note, it is an advance.

Walter W. Haines

DISCRIMINATING MONOPOLY (*Theory of value)

A market situation in which the monopolist divides his sales among a different number of 'markets' and charges different price in each market.

Frederic Benham

Price discrimination. This occurs when a monopolist charges different prices for different units of a commodity even though these units are in fact homogeneous so far as their physical nature is concerned, or when different prices are charged for the same commodity for different persons.

A.W. Stonier and D.C. Hague

A firm which charges different prices to different customers for the same commodity.

The basic condition which must be met before price discrimination, that is, the sale of different units of a product at different prices, can be practised successfully is that the market for the seller's product be split off into separate sections and that it be difficult to transfer the seller's product from sector to sector. The basic rule of profit maximization in discriminating monopoly is that marginal revenue must be the same in all markets to which the firm sells.

William J. Baumol

The act of selling the same article, produced under a single control, at different prices to different buyers.

Joan Violet Robinson

The practice of selling or buying in different quantities to or from different buyers or sellers at different prices.

Kenneth E. Boulding

The term price discrimination refers to the practice by a seller of simultaneously charging different prices to different buyers for the same goods.

Joe S. Bain

Price discrimination is an important aspect of monopolistic strategy. The theory of it had been doveloped in a rudimentary form by Dupuit, Walras and Edgeworth. Pigou's presentation of this range of problems in *Wealth and Welfare* indicates the extent to which discrimination was understood by the economists of the period. We must not forget, however, that the specialists in applied fields, notably in the field of transportation,

had got further than that. For example Arthur T. Hadley in his *Railroad Transportation* (1885) showed the possibility and profitability of the practice of price discrimination. Surprisingly, Marshall like Cournot failed to give adequate attention to it.

Joseph A. Schumpeter

The recent economists who have analysed the phenomenon of discriminating monopoly or price discrimination include Joan Robinson, K.E. Boulding, W.Fellner and Joe S. Bain.

See also "Price discrimination".

Compiler

DISCRIMINATING PROTECTION (*International economics)

The policy of protecting the goods produced by a few select domestic infant industries from the 'invasion' of foreign goods, through either banning of such importations or levying prohibitive protective tariffs.

Discriminating protection was adopted in India first in 1923 on the recommendation made by the Indian Fiscal Commission (1921-23).

Discriminating protection differs from wholesale protection that covers all home industries.

Compiler

DISCRIMINATION (*Theory of value/International economics)

It means either price discrimination or trade discriminaion.

Compiler

DISECONOMIES (*Theory of value)

Diseconomies are of two types: (1) internal diseconomies, and (2) external diseconomies.

Internal diseconomies refer to disadvantages or difficulties of large-scale management. in other words, the term implies the obstacles (bottlenecks) which prevent the indefinite or unlimited expansion of a firm.

As a firm expands beyond the optimum level, it meets with the following internal diseconomies: (1) difficulties of management, (2) scarcity of factor supplies, (3) difficulties in obtaining finance, (4) the service of able managers, (5) fall in price due to high production and (6) marketing difficulty.

As a result of these difficulties, the firm's long-run average cost curves start rising. The term external diseconomies refers to the dangers of localisation of an industry or to disadvantages that ensue due to the unlimited expansion of an industry as a whole.

The dangers of localisation or territorial division of labour include : (1) imbalanced regional growth, (2) economic breakdown, (3) too much pressure on raw materials and other infrastructure, (4) health hazard, and (5) dangers arising from war.

When an industry over-expands, its growing demand for the productive factors may finally raise up the prices all round.

See also "Internal diseconomies" and "External diseconomies."

Compiler

DISEQUILIBRIUM (*Theory of value)

In conditions of economic equilibrium, there is a tendency for things to remain as they are. If these conditions are disturbed, it results in disequilibrium.

M. L. Seth

(The opposite of equilibrium. See "Equilibrium."—Compiler)

DISGUISED UNEMPLOYMENT (*Economics of labour/Economics of development)

Employment in 'jobs' that could be discontinued without a reduction of output in the sector in question.

W. Fellner

Concealed unemployment.

G. M. Meier and R. E. Baldwin

A situation in which even with unchanged techniques of agriculture, a large part of the population engaged in agriculture, could be removed without reducing agricultural output.

Ragnar Nurkse

The concept was originated by Ragnar Nurkse in his *Capital Formation in Underdeveloped Countries* (1953). It is also known as "Surplus man-power.

The term refers to that amount of idle work force in terms of man-equivalent hours which exists at the peak of agricultural operation.

P. N. Rosenstein-Rodan

The adoption of inferior occupations by dismissed workers.

Joan V. Robinson

The state of affairs which exists when the same output could be produced using less labour. In this case, the marginal productivity of labour is zero.

Colin Clark and Margaret Haswel

A situation in which wages per man are below the rate that would give the lowest cost per work unit.

Encyclopaedia of Social Sciences

With the same amount of capital, with the same institutional framework, and with the same size of landholding, it may be possible that, by raising the intensity of work per hour, by improving the organisation of work and division of labour and by introducing simple labour-saving

devices requiring little or no net addition of capital outlay, a number of workers could be released from the land without reducing the total agricultural output. The proportion of the agricultural labour force which could be so released indicates the degree of disguised under-employment prevailing in the community in question.

Chiang Hsien

The term disguised, applied only to persons who are not normally engaged in wage employment. The disguised unemployed are those who work on their own account and so numerous, relatively to the resources with which they work; that if a number of them were withdrawn for work in other sectors of the economy, the total output of the sector from which they were withdrawn would not be diminished, even though no significant reorganisation occured in this sector and no significant substitution of capital.

U.N. Committee's Report

By disguised unemployment, we mean that there are people who are willing to work more than they are currently working, or to do work with a greater productivity than they are currently doing, and that the change would be possible with existing productive equipment. It is 'unemployment', because some people who are willing to produce are not able to do as much as they would like; it is 'disguised', because the people concerned are not completely idle.

Examples of this situation are quite easy to find in both industrialized and primary producing countries. Compulsory part-time working is an example. Another example arises where a dismissed industrial worker chooses to enter a less remunerative non-industrial occupation rather than be completely idle.

In underdeveloped primary producing countries the particular form which is usually taken by disguised unemployment is rural over-population.

Compiler

DISHOARDING (*Theory of value)

The desire to hold few assets in the form of money, or the running down of stocks of money or goods that have been accumulated by hoarding.

In the neo-classical loanable funds theory of interest, dishoarding or dishoarded money is one of the four components of the supply of loanable funds.

In terms of Keynesian theory, dishoarding may be described as a reduction in liquidity preference to satisfy speculative motive of demand for money.

Compiler

DISINFLATION (*Monetary economics)

A policy of bringing down inflationary prices to reasonable levels.

Rajnarain Mathur

DISINFLATIONARY POLICY (*Monetary economics)

Policy contracting spending to offset some other expansionist force. The word "disinflationary" is today favoured to "deflationary' .

R.S. Sayers

DISINVESTMENT (*Theory of value)

Consuming capital or spending amortisation quotas on consumption.

Gottfried Von Haberler

Opposite of investment. Subtraction from capital stocks.

Abba P. Lerner

Fall in the quantity of stocks.

A.C.L. Day

Also known as negative investment, the term was coined by Lord Keynes to refer to the *sale* of an investment. Britain sold off her overseas investments during World War II to secure foreign currency to pay for her imports. National output expands only when fresh investment exceeds disinvestment.

M.L. Seth

Disinvestment is one of the components of the supply of loanable funds in the Neoclassical theory of interest.

DISMAL SCIENCE (*General economics)

After he read the following passage in T. R. Malthus's *Essay on Population* (1798), Thomas Carlyle, no optimist himself, called political economy a "Dismal Science". The name has struck.

"………The power of population is so superior to the power of the earth to produce subsistence for man, that premature death must in some shape or other visit the human race. The vices of mankind are active and able ministers of depopulation………".

R. Lekachman

It is also to the credit of Carlyle having nicknamed David Ricardo and T. R. Malthus, for their pessimistic theories of the law of diminishing returns and the theory of population respectively—as the respectable professors of dismal science.

Compiler

Thomas Carlyle (1795-1881) while dubbing economics a dismal science overlooked the fact that *all* science is 'dismal' to the artist. A

large part of the public applauded, and so did some economists who understood no more than he did what a 'science' is and does. However, he was not wholly in error. The utilitarian economists did advocate policies indicative of a philosophy of life that fully deserved all the stripes that Carlyle administered.

J. A. Schumpeter

DISMISSAL WAGE (*Economics of labour)

A type of wage guarantees.

An arrangement whereby the employer undertakes to pay a predetermined amount to an employee on the termination of his employment.

V.V. Giri

DISPERSION (*Statistical methods)

The average has its own limitations and even an ideal average can represent a series only "as best as a single figure can." No doubt averages have a very great utility in statistical analysis but they fail to reveal the entire story of a phenomenon. There may be a dozen series whose averages may be identical but which may differ from each other in a hundred ways. Obviously in such cases further statistical analysis of the data is necessary so that these differences between various series may also be studied and accounted for.

In a given number of series the mean may be the same, but the values of different items may be quite scattered (i.e. different). In such a case in order to have a correct analysis of the series, it is essential that we study something more than their averages, because averages are identical and yet the series widely differ from each other in their information. The extent of the scatter round an average should also be studied to throw more light on the composition of a series. The name given to this scatter is dispersion.

Thus in a general sense, dispersion refers to the variability in the size of the items. It indicates that the size of items in a series is not uniform. The dispersion may be of the second order or of the first order ; it may be absolute or relative.

The following measures of dispersion are in common use :

(1) Range, (2) Inter-quartile range, (3) Semi-interquartile range or quartile deviation, (4) Average deviation or mean deviation, and (5) Standard deviation or Root-mean-square deviation.

D.N. Elhance

DISPOSABLE BUSINESS INCOME (*Public finance)

The amount of gross money income left at the disposal of business after all taxes and transfer payments.

L.V. Chandler

DISPOSABLE GOVERNMENT INCOME (*Public finance)

Disposable government income during a period is the amount of money income remaining at the disposal of the government after all taxes and transfer payments.

L.V. Chandler

DISPOSABLE INCOME (*Public finance)

People's income after they have paid their taxes.

P.A. Samuelson

Money income minus income taxes plus net realized capital gains.

George J. Stigler

When personal taxes are deducted from personal income, the resulting figure is usually called disposable income.

A.L. Meyers

Personal income minus personal taxes and related payments.

Raymond Bye

Disposable personal income is the income *actually* received by the individuals or households of a country during one year. It is equal to personal income minus personal direct taxes.

(Personal income=National income—Corporate income taxes—undistributed corporate profits—Social security contributions+transfer payments).

Compiler

DISPOSABLE PERSONAL INCOME (*Public finance)

Disposable personal income during a stated period is the money income remaining at the disposal of persons (or households) after all taxes and transfer payments.

L.V. Chandler

Personal income minus personal taxes.

W.W. Haines

What people have left after they pay all their taxes.

G.L. Bach

The money people have to spend or save after their personal taxes are paid. It is considered as the most important single determinant of national consumption expenditure.

M.L. Seth

DISSAVING (*Monetary economics)

When a tax-payer sells some of his assets to pay his taxes, he is said to dissave.

F. Benham

Eating up of capital and refraining from investing that part of gross receipts which is not net income.

Gottfried V. Haberler

The excess of consumption expenditure over disposable income. In this either the stock of wealth accumulated by past saving is depleted or borrowing against prospective income is taking place.

Compiler

Coined by Lord Keynes, dissaving occurs when a person lives on past savings. Some sections of the people resort to dissaving in an inflationary situation.

M.L. Seth

DISTRIBUTION (*Theory of value)

The shorthand way of referring to the distribution of national income among the four factors of production—land, labour, capital, and organisation—in the the form of rent, wages, interest, and profits respectively.

The theory of distribution is concerned with the emergence and determination of factor prices in contrast with the theory of production which deals with the determination of product prices.

Distribution is no less important than production. Production may be quite high but if it is not equitably distributed among the factors, particularly, labour, there is born, nourished and perpetuated the ugly phenomenon of inequality of income and wealth leading to socio-economic and political instability. The less developed economies are usually more prone to this danger.

Compiler

DISTRIBUTION THEORY (*Theory of value)

The theory of distribution deals with the determination of the levels of payment to the various factors of production—the prices of the economy's inputs. The analysis of distribution is a portion of the general equilibrium theory.

W.J. Baumol

(See also "Theory of distribution."—Compiler.)

DISUTILITY (*Theory of value)

It is the opposite of utility. It implies discomfort, or loss of satisfaction resulting from consuming or possessing too much of a thing. Utility, after a stage becomes zero utility which thereafter transforms itself into disutility or negative utility. (Here the term utility is taken to mean satisfaction, and not "ability to satisfy a want").

Compiler

DIVERGENT LATERAL INTEGRATION (*Industrial economics)

A combination where the different combining units draw the supply of their raw materials from one common enterprise.

S.C. Kuchhal

DIVERSIFICATION (*Industrial economics)

This occurs when a firm starts producing a new product while continuing the production of its exisiting products.

Diversification may be motivated by several reasons: (1) desire to spread risk, (2) to compensate for cyclical or seasonal fluctuations in demand, (3) the existence of excess capacity, (4) innovation and (5) desire to maximise profits.

Generally speaking diversification which is possible only to monopoly houses with enormous resources at their disposal, is the offspring of protection or protective tariffs. In fact protection has diversification as one of its arguments.

However, in emerging countries like India, diversification has been, disappointingly enough, resulting in the mass production of ostentatious goods.

Compiler

DIVIDEND (*Industrial economics)

The amount of a joint-stock company that the Board of Directors decide to distribute among the ordinary shareholders. It is usually expressed as a percentage of the nominal value of the shares or stock held.

Dividends are paid only out of profits which may be either the current profits or undistributed profits of the past years.

The terms *ex* dividend and *cum* dividend signify that the stock exchange valuations of the shares are exclusive or inclusive of dividend.

The dividends are paid less income tax at the standard rate.

The term dividend is also used to denote interest on government stocks.

Compiler

DIVIDEND TAX (*Public finance)

Tax on corporate dividends.

In India the excess dividend tax payable by the companies arrived in 1956 and departed on April 1, 1959.

Compiler

DIVIDEND WARRANTS (*Industrial economics)

The instruments issued by joint-stock companies to the shareholders, in payment of the dividends, declared out of the profits of the companies.

A.K. Basu

DIVISIBILITY (*Theory of value)

Divisibility, which is also called segmentation means that output can be increased by putting another machine (or group of them) into operation, then another, then another and so on. Divisibility also means that output can often be expanded by working a second shift and a third. It can also mean, in some industries, that machines can be operated at faster or slower rates.

D.S. Watson

DIVISIBLE GOODS (*Theory of value)

Goods that brought in small units, such as apples per week, kilograms of sugar per month. The commodities which are bought once or at longer intervals such as automobiles, television sets, overcoats etc., are indivisible goods).

Compiler

DIVISIBLE PLANT (*Theory of value)

Plants can be indivisible or divisible. (An indivisible plant is exemplified by blast furnaces, refineries and distilleries. Such a plant has a single complex of equipment the whole being designed to produce one small range of output. Indivisibility is a matter of degree, the extreme being perfect indivisibility, meaning that a plant could produce one exact output only). In contrast, a divisible plant consists of several complexes of more or less identical equipment.

Donald S. Watson

DIVISION OF LABOUR (*Theory of value)

The breaking up of a productive process into a large number of separate jobs with each labourer specialising in a single operation.

Richard G. Lipsey

The division of the productive process into a large number of interdependent operations. To each of these operations, a labourer is assigned.

G.W. Forster and M.C. Leager

The separation of different trades and their concentration upon the production of single goods.

Mark Blaug

Specialisation. Adam Smith in his *Wealth of Nations* (1776) explained that if each worker concentrated on a small operation in the manufacture of an article instead of performing every operation in its construction, production would be greatly increased and greater efficiency obtained.

A.W. Stonier and D.C. Hague

Plato's discussion of specialisation and exchange clearly suggests the idea of 'division of labour' and indeed the Greek philosopher's (Plato's)

concept of division of labour, while crude, is the ultimate father of the later discussions of Hutcheson, Hume and Adam Smith.

Lewis H. Haney

The caste system of Plato (427-347 B.C) rests upon the perception of the necessity of some Division of Labour. He (and following him, Aristotle) (384-322 B.C.) puts the emphasis not upon the increase of efficiency that results from division of labour *per se* but upon the increase of efficiency that results from allowing everyone to specialize in what he is by nature best fitted for.

The first three chapters of A. Smith's *Wealth of Nations* deal with Division of Labour. Though there is nothing original about it, one feature must be mentioned that has not received attention it deserves: nobody, either before or after A. Smith, ever thought of putting such a burden upon division of labour. With him, it is the only factor of economic progress.

Division of labour itself is attributed to an inborn propensity to truck and its development to the gradual expansion of markets—the extent of the market at any point of time determining how far it can go.

Joseph A. Schumpeter

Division of labour is classified into (1) simple division of labour, (2) complex division of labour, and (3) territorial division of labour or localisation of industries. Smith was mainly concerned with the complex division of labour which is the characteristic feature of an industrial economy. Territorial division of labour constitutes the basis of the classical theory of international trade.

Compiler

DOBB MAURICE (*History of economic thought)

Distinguished socialist economist of Cambridge University.

The late Prof. M.H. Dobb was critical of the utility of any precise definition of economics. He said: "The search for logically concise definitions of one's subject matter, which is so popular today, must generally be barren, and when pushed to an extreme, must result in emptying ideas of real content and attaining little but an arid and scholastic dogmatism". He introduced a slight variation in the use of the Frischian terms—Micro economics and macro economics—by rechristening them as microscopic economics and macroscopic economics.

In his famous *Soviet Economic Development Since 1937* (1948), he eloquently pleaded for central planning. He argued that consumers' sovereignty could and should be abolished. He favoured economic development through long-run planning. He supported teleological planning (i.e. planning that is not bound by the constraints of the patterns of the past). He stressed the importance of planned development in contradistinction to the achievement of perfect *equilibrium* at any given point of time.

He lauded collectivization of farming in the U.S.S.R.

Along with Pierre Sraffa, he edited *The Works of David Ricardo* (1951). In his *Political Economy and Capitalism* (1937) he made a forceful Marxist attack (like Oscar Lange) on modern economics. This work also disposes of the allegation that marx held a simple underconsumptionist theory. His studies in the *Development of Capitalism* (1946) presented a a modern account of Marxism.

Prof. Dobb along with other socialist writers, *viz.*, Dickinson, Durbin, Lange, Taylor and Lerner, is very much responsible for the popularisation of Marxian economics in the West.

He ruled out the impossibility of rational economic calculations in a socialist economy.

His another work is *Some Aspects of Economic Development* (1951).

Compiler

DOCK WARRANT (*International economics)

A document issued by a dock company stating that the goods as described therein are entered in its books and are deliverable to the person mentioned or his assigns by endorsement.

A.K. Basu

DOCTRINE OF COST DIFFERENCES (*International economics)

The classical doctrine which states that international trade takes place because of absolute and comparative differences in the cost of production in different countries. Theory of comparative costs is a special case of the above principle.

Compiler

DOCTRINE OF INTERNATIONAL DISTRIBUTION OF GOLD (*International economics)

The doctrine formulated first by David Hume (following Cantillon) and again in almost indentical terms by Ricardo, Senior, Mill and Bastable remained for a long time without any important changes. Its essential points are the following two ideas :

(1) that gold is a commodity whose circulation from one country to another is determined by the same circumstances as other commodities,

(2) that just as commodities are exported from a country where they are cheap to one where they are dearer, so is gold exported when it is cheaper in one country than in others and this export of gold tends after a short time to equalize the price levels in the different countries.

Charles Gide and Charles Rist

DOLLAR (*Monetary economics)

Currency (money of account) of the U.S.A., Canada and Hong-kong.

The U.S. dollar is written as \$ or \$. The word 'dollar' is derived

from the German 'Taler' which is an abbreviation of Joachimstaler. Joachimstaler was the name bestowed upon silver pieces conied at Joachimstal in Bohemia and widely circulated as medium of exchange in Germany.

The *taler* was introduced in Spain and Spanish colonies in America in the reign of Charles V of Hapsburg, the King of Spain between 1516 and 1556 as well as Emperor of Germany.

Dollar is defined by law as a certain weight of gold. The financial accounts of the I.R.R.D and the I.M.F. are expressed in terms of the U.S. dollar. The U.S. dollar and the Pound Sterling are the big two or key currencies of the world.

Compiler

DOLLAR AREA (*International economics)

Term applied during the post World War II period of dollar shortage to a group of countries whose sterling accounts could be freely converted into dollars. The dollar area comprised the U.S.A. and her dependencies, Canada, and 'American Account' countries; the Philippines and the fourteen Latin American republics—Bolivia, Colombia, Costa Rica, Cuba, Dominica, Ecuador, Guatemala, Haiti, Honduras, Maxico, Nicaragua, Panama, Salvador and Venezuela.

Since 1958 due to the increased convertibility of Sterling, the term dollar area has lost its former precise meaning.

Compiler

The Key-currency reserves (the dollar and the pound sterling) are influenced by the balance of payments surpluses or deficits of the U.S. and the U.K. The larger the deficit, say, in the U.S. balance of payments, the more claims arise on that country and the more international liquidities increase. If such a situation persists, the American currency becomes the subject of distrust and dollars are converted into gold, so that international liquidities once again contract.

As a consequence, many states have in a sense tied their exchange rates to those of the two key currencies; hence the creation of what are known as monetary areas. The most important of these are the dollar and the sterling area; others include the rouble, French franc and escudo areas. The sterling area (block) came into being in 1939.

In the dollar area, there are fewer formal ties. The countries of this area in principle demand payment, and maintain the bulk of their reserves, in dollars. Since their currencies are interconvertible, there is no exchange control among these countries.

M.A.G. Van Meerhaeghe

DOLLAR GAP (*International economics)

Dollar shortage. The phenomenon of excessive demand for the U.S. dollar over its supply at the prevailing exchange rates.

The problem of dollar gap arose after the Second World War. Demand for American essential goods was far in excess of weakened Europe's ability to export after the 1914-18 war and the resulting dollar shortage was temporarily plugged by loans and credits and running down Europe's gold reserves. The dollar gap reappeared in 1940 with the high wartime demand for American goods and was temporarily tackled by the large scale exchange control and British overseas investments. Lend-Lease Agreement between the U.S.A. and the Allies deferred the problem from 1941 to 1945 when the problem reemerged in precarious form. Exchange controls were tightened everywhere, but it was not until the Marshall Plan that the dollar gap was not brought under control.

In recent years short-term capital exports from the U.S.A. have tended to cause a 'reverse dollar gap' (i.e. dollar glut).

Compiler

DOLLAR POOL (*International economics)

London (as banker) holds the gold and dollar reserves for the whole sterling area. Countries in the sterling area pay dollars earned by them into the common pool and draw from the pool to meet their dollar requirements. This arrangement is called dollar pool. This practice was due to dollar scarcity in the 1940's.

R.S. Sayers

DOLLAR PROBLEM (*International economics)

Dollar shortage.

(See "Dollar shortage".)

Compiler

DOLLAR SHORTAGE (*International economics)

A situation in which foreign nationals wish to obtain more dollars to buy U.S. goods than are available at current exchange rates so that scarce dollars must be rationed.

W.W. Haines

A persistent tendency on the part of populations of the world outside North America to spend more in that region than the sum of what they are earning in that region and what the inhabitants of region are disposed to lend to them or invest in their borders under the play of ordinary economic motive.

Sir Denis H. Robertson

Defining the 'dollar shortage' was, for a time, almost an international sport among economists.

The dollar problem or shortage is of recent origin. Until the late 1930's means existed whereby the U.S. surplus could be accommodated in the world payments system and it was in great part the removal of such

means, largely as a result of World War II, which caused the acute dollar shortage in the ten years after 1945. (More precisely, the dollar shortage may be said to have appeared in World War I, to have persisted in the three or four years which followed it and to have appeared again and grown in stature from 1929. The years 1944-45 were those of its greatest intensity. Since 1955, it has been in abeyance.

The emergence of the dollar problem has been the greatest single aspect of structural change. This problem, manifesting itself in a persistent current account surplus by the United States, reflected partly the growing importance of the U.S. as a supplier of primary commodities to Europe, partly the swift expansion of the U.S. as an exporter of manufactures, and partly the difficulties which Europe had in the early post-war period in selling its exports to the highly protected and well-stocked American market.

W.M. Scammell

DOMAR, EVSEY DAVID (B. 1914) (*History of economic thought)

A great American development economist.

See "Harrod-Domar model of economic growth".

Compiler

DOMESTIC BILL OF EXCHANGE (*Monetary economics)

Inland bill of exchange as distinguished from foreign bill of exchange.

In India it is called *hundi*.

Compiler

DOMESTIC BORROWINGS (*Public finance)

Internal public borrowings in distinction to external public borrowings.

Compiler

DOMESTIC GOLD STANDARD (*Monetary economics)

The modern gold standard serves two functions. In the first place it is a method of controlling the volume of the currency. The second function of the gold standard is it to preserve the stability of exchange rates. The two functions are logically quite distinct. The first, aiming at control of the volume of the note issue, is obviously concerned with the internal value of the currency; we may, therefore, call it the domestic gold standard. It is mainly concerned with the *volume* of money and with its influence upon the domestic price level. (The second, aiming at the stability of the external value of the currency, we can call the international gold standard).

The cardinal point in the domestic gold standard is clearly the proportion of *volume* enforced by law between the gold reserve and the currency. (The essence of the international gold standard is the

convertibility of the currency into gold). Between the two, international gold standard is incomparably the more important.

Geoffrey Crowther

DOMESTIC INVESTMENT (*Industrial economics)

An increase in the physical assets (real capital) of business.

W.W. Haines

DOMINANT FIRM (*Theory of value)

A business concern so powerful that smaller concerns in the industry are afraid of taking independent action in trade policy.

M.L. Seth

DORFMAN, ROBERT (*History of economic thought)

A well-known American contemporary economist well versed in theoretical and mathematical analyses. He introduced the famous terms of bathtub theorem and cybernetics. *Linear Programming and Economic Analysis* (1958) written jointly by Dorfman, Paul A. Samuelson and Robert M. Solow is a standard work on linear programming, and it is an extensive treamcnt of the economics and mathematics of Walrasian general equilibrium.

Compiler

DOSE (*Theory of value)

Additional quantity of (labour and capital) used.

Knut Wicksell

The term suggested by James Mill refers to capital and labour applied successively to land.

Alfred Marshall

DOUBLE FACTORAL TERMS OF TRADE (*International economics)

Net barter terms of trade divided by the relative change in productivity in the exports of a given country and in the foreign industries producing its imports.

G.M. Meier and R.E. Baldwin

(The ratio, expressed as an index value, of the index of the average export price (P_e) to the index of the average import price (P_m) is called terms of trade. Other definitions of the terms of trade have been advanced. F.W. Taussig draws a distinction between the 'net or normal barter terms of trade' and the 'gross barter terms of trade', which relates to the volume of imports and exports.) There is also the concept of 'double factoral terms', in which account is taken of productivity changes; this concept is scarcely suitable for statistical calculation.

M.A.G. Van Meerhaeghe

To overcome the failure of the commodity terms of trade to take into account large changes in productive efficiency of factors, Professor Jacob Viner introduced the concepts of single and double factoral terms of trade.

(Single factoral terms of trade refers to the relation between the index number of export prices and import prices, but adjusted for changes in the productivity of a country's factors in the export industries.) Double factoral terms of trade takes into account the changes in the productivity of a country's factors in the production of exports as well as the increase in the efficiency of foreign factors in producing import goods.

Double factoral terms of trade are much better than single factoral terms of trade because the adjustement is made in the efficiency of factors in both the countries.

K.P.M. Sundharam

DOUBLE PRICING (*Theory of value)

It means stamping *two* prices on goods displayed for sale, the higher price is then cancelled to indicate price-cut to the customer. It serves as an inducement to the customer to buy the goods in question.

M.L. Seth

DOUBLE STANDARD (*Monetary economics)

Bimetallism or bi-metallic standard.

See "Bimetallism".

Compiler

DOUBLE TARIFF (*International economics)

Tariff that distinguishes either between autonomous and conventional duties, or between maximum and minimum duties.

Gottfried Von Haberler

DOUBLE TAXATION (*Public finance)

If there is any useful meaning to the term "double taxation, "it is that the same governmental jurisdiction (federal, state, or local) taxes the same thing (income, property, or a purchase) more than once in the same period through the same form of tax instrument. The problem is, of course, one of equity, and even "double taxation" of the sort implied in the definition is not widely objectionable provided it is done across the board. But single taxation of some while others are taxed doubly is discrimination.

Philip E. Taylor

DOUGLAS, MAJOR CLIFFORD HUGH (1878-1952) (*History of economic thought)

A Scottish engineer-economist. He developed the scheme of social credit. He is also one of the two proponents of the under-consumption theory of business cycles. According to this famous theory, too much

saving and too little consumption in the capitalistic societies, are the underlying causes of business depression.

Compiler

DOW JONES INDEX (*Industrial economics)

An index number of share prices prevailing on the Wall Street stock exchange, London.

Compiler

DOWNSWING (*Business cycles)

Depression phase of business cycle.

G. Haberler

DOWNTURN (*Business cycles)

A contraction of economic activity leading to the period of depression or slump.

Frederic Benham

DRAFT (*Monetary economics)

A cheque drawn by a banker either on himself or upon another banker with whom he has an account.

Norman Crump

DRAWER (*Monetary economics)

A person who writes a bill of exchange or promissory note. He is also called the 'maker'.

W.W. Haines

The person giving the order in a bill.

A.K. Basu

DRONE ENTREPRENEURSHIP (*Industrial economics)

An entrepreneurship which is characterised by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns relative to other like producers. It does not fulfil his social role because he refuges to assume any innovating function.

Clarence Danhop

DROUGHT RESERVES (*International economics)

In Australian discussion, it refers to accumulation of gold and foreign exchange in *fat* years by the central bank against lean years.

R.S. Sayers

DRY FARMING (*Agricultural economics)

The production of crops under such climatic conditions that the yield is usually and primarily limited by low rainfall.

Encyclopaedia of Social Sciences

The opposite of wet farming. Farming carried on with the aid of rainfall alone.

Compiler

DUAL BANKING (*Monetary economics)

A situation in which a bank may be chartered and supervised by either state or Federal agencies.

W.W. Haines

DUAL ECONOMY (*Economics of development)

The name suggested by Alvin H. Hansen for 'mixed economy'.

Compiler

DUAL PRICES (*Theory of value)

A system in which a goods is simultaneously sold at two different prices within a given area. For example, in India, the Government sells through the fair price shops sugar (levy sugar) at a lower price, and at the same time allows the private sector to sell it at a higher price. Of late dual pricing is adopted in respect of cement too.

Dual pricing is different from price discrimination.

Compiler

DUAL SOCIETY (*Economics of development)

The term was suggested by J.H. Bocke. It is maintained that after being opened up to the world markets, many poor countries became "Dual economies": the export sector became an island of development but the rest of the economy made little advance and the export sector remained surrounded by subsistence conditions and inferior methods of production.

G.M. Meier and R.E. Baldwin

Social dualism is the clashing of an imported social system with a social system of another style. Most frequently the imported social system is high capitalism. But it may be socialism or communism just as well, or a blending of them.

J.H. Bocke

DUE FROM BANKS (*Monetary economics)

The sum that a bank may have on deposit with other banks (perhaps to take advantage of the clearing house facilities of another bank in another city) and also the amount of cheques drawn on other banks that have been received by the bank in question and are in the process of collection.

A.L. Meyers

DUMPING (*Theory of value)

Price discrimination between two markets.

Jacob Viner

Price discrimination in favour of the foreigner.

The term 'dumping' is now almost universally taken to mean the sale of a goods abroad at a price which is lower than the selling price of the same goods at the same time and in the same circumstances (that is, under the same conditions of payment and so on) at home, taking account of differences in transport costs.

The two rival definitions of dumping: (1) 'foreign sales below the home price' and (2) 'foreign sales below the home price *and* below the cost of production (in the sense of full average cost)' will lead to the same results in numerous cases.

Dumping is classified into different kinds. The so-called 'exchange-dumping' occurs when, in time of inflation, home costs and prices have risen less than the exchange value of the currency has fallen. The so-called 'social dumping' is said to occur when the producers in one country pay lower wages or give their workers poorer conditions than do their foreign competitors.

It has become customary in Anglo-Saxon writings to distinguish between (a) sporadic or occasional, (b) short-period or intermittent, and (c) long-period or continuous dumping.

Sporadic dumping occurs, especially at the end of a selling season, to get rid of 'remainders' which are practically unsaleable on the home market.

Intermittent dumping is the sale abroad, from time to time, at a price below the home price, and may involve selling at a loss in the strict sense of that phrase.

Long-period dumping is not possible at a loss, that is, at a price below the marginal cost.

Gottfried Von Haberler

Selling of the same commodity by a concern at a lower price in an export market and at a higher price at home.

Joan Violet Robinson

The policy of price discrimination between two markets in international trade.

Kenneth E. Boulding

When a monopolist sells his goods at a lower price abroad than in his home market, he is said to dump the goods.

Frederic Benham

By dumping is meant the selling of products abroad at a lower price than that at which the same goods are supplied on the domestic market.

Dumping may be temporary or permanent. Temporary dumping sometimes causes marked disturbances, e.g. if the goods are sold at a loss

abroad in order to eliminate competition. This is called 'dumping from strength', as distinct from 'dumping from weakness' (selling of surplus production which cannot be disposed of on the domestic market).

The term 'Social dumping' is frequently employed in the case of low-priced imports from low-wage countries.

M.A.G. Von Meerhaeghe

DUOPOLY (*Theory of value)

Two sellers.

E.H. Chamberlin

The condition of market in which there are only two sellers of a product.

Kenneth E. Boulding

A market situation in which there are only two sellers.

A.W. Stonier and D.C. Hague

A situation in which there are only two firms producing either a standardised product or two products which are only slightly differentiated.

Albert L. Meyers

"A market situation in which there are two producers of an identical product who are bound by no agreement as to prices or output."

A two firm industry. This is a special case of oligopoly.

William J. Blaug

There are three classical models of duopoly (which can be transformed into models of oligopoly). They are:

(1) Model of Augustin Cournot, advanced in 1838;
(2) Model of Joseph Bertrand put forward in 1883; and
(3) Model of F.Y. Edgeworth presented in 1897.

Compiler

DUOPSONY (*Theory of value)

A market situation in which there are two buyers of a product. It is the opposite of duopoly.

Compiler

DUPONT DE NEMOURS, PIERRE SAMUEL (1739-1817) (*History of economic thought)

French economist (physiocrat) and statesman. He was an intimate friend of Turgot and a follower of Quesnay—the leading physiocrats. He hailed political economy as a new science and invented the name physiocracy to be applied to Quesnay's School.

His career as a political economist started at the age of 24, in 1763 when he casually published *Reflexions Sur L' ecrit intitule.* This work, to his dismay won the approbation of Quesnay and Mirabeau, another notable Physiocrats. For two years he edited the journal *de l'a agriculture.*

In his numerous articles, he anticipated Malthusian doctrine of population; caricatured the history of economic thought; demonstrated the unproductive nature of expenditure on slavery; advocated equitable taxation by scrapping indirect and other regressive taxes; put forth the plans for mass education; and attacked the commercial monopolies.

In 1774, Dupont was appointed the personal adviser of Turgot who then became minister. Later, he himself became minister in France. He was unsuccessful in his bid to reform currency. Under unpleasant circumtances he left for America. He died at the age of 78.

Some of his works are:

(1) *De L' origine et des progres d'ume science nouvelle,* (1768)
(2) *Du commerce et dela compagnie des Indes* (1769)
(3) *Tableau raisonne des principles de L'economie politique* (1775)
(4) *Memoires sur la vie et les ourrages de M. Turgot* (1788)

Compiler

DUPUIT, ARS'ENE JULES ETIENNE JUVE'NAL (1804-66) (*History of economic thought)

French engineer-turned-economist. He is one of the discoverers of marginal utility principle. Mark Blaug observes: "The concept of marginal utility goes back to the writings of Senior, Lloyd, and Longfield in the 1830's, although only Lloyd made any substantive use of the notion. It was independently rediscovered by Dupuit in 1844, by Gossen in 1854, and by Jennings in 1855, and all the three writers employed it to throw light on consumer behaviour."

As a government engineer, he used to supervise highways and waterways. While working in this field, he found that these works were yielding extra benefit to the general public and expressed his reflections in two articles in the French journal *Annales des ponts et chaussees* in 1844 and 1849. In these articles he evolved a method of measuring utility with the help of geometrical diagrams and the result was the development of utility profit doctrine or what Marshall later christened as Consumer's surplus. He was the first (excepting Cournot) to use a demand curve, to develop the doctrine of consumer's surplus, and to clearly understand (except for W.F. Lloyd) the theory of utility.

Dupuit, a pioneer in mathematical parts of utilitarian economics, later turned to discussions relating to property.

Compiler

DURABLE CONSUMER GOODS (*Theory of value)

Non-perishable consumer goods like residential house, furniture etc. Which can be used over a fairly long period of time. Such goods are to be distinguished from semi-durable goods.

Compiler

DURABLE GOODS (*Theory of value)

Goods that can be used for a fairly long period.

F. Benham

They are the opposite of perishable goods.

Compiler

DURABLE (CAPITAL) PRODUCER GOODS (*Theory of value)

Capital goods like factories, machines etc., with a fairly long span of life.

Compiler

DURGAPUR STEEL PLANT (*Economic history)

One of the four gigantic integrated iron and steel plants in the Indian public sector (the other three are Bhilai, Rourkela and Bokaro plants). The plant built in collaboration with the United Kingdom, in West Bengal, was inaugurated by the late President of India Rajen Babu on December 29, 1959.

Its management vests in the state-owned the Steel Authority of India Limited (SAIL).

Compiler

DUTT COMMITTEE (*Economic history)

Industrial Licensing Policy Enquiry Committee, popularly known as Dutt Committee, was appointed by the Government of India under the chairmanship of Mr. Subimal Dutt in July 1967 to enquire into the working of the industrial licensing system during the past 10 years (1956-66). In its report submitted during the second half of 1969, the Committee brought out several deficiencies and malpractices.

According to the Committee, out of 73 large industrial houses which were examined in detail, the percentage share of 30 houses in the investment proposed in their applications was considerably higher than their share in the paid-up capital of the corporate sector for 1968-69. It found that a few industrial houses were able to manipulate things in their own favour. It also observed that 31.8 per cent of the licenses issued in the 10 year period (1956-66) were not implemented.

In order to make licensing more rational and puroposeful, the Committee, in its recommendations, divided industries into four categories— (i) key or 'core' sector, (ii) small scale sector, (iii) industries producing less essential consumer goods and (iv) the rest of the industrial

sector. The different sectors were to be subjected to varying degrees of licensing.

Compiler

DUTT, ROMESH CHANDRA (1848—1909) (*History of economic thought)

Eminent Indian economist. Born in Calcutta in 1848, R.C. Dutt joined the Indian Civil Service in 1869. In 1899 he became the President of the Indian National Congress. In his last years, he served as a Lecturer in Indian History at the University of London and published his famous work—*Economic History of India* (1902 and 1904) (two volumes). His other book was *Famines in India* (1900).

He held that economic and political phenomena were interdependent. He made a systematic analysis of Indian poverty. He observed that Indian tax-payer was taxed 40 per cent more than his counter-part in England. He made many suggestions aiming at augmentation of agricultural productivity, extermination of famines, revival of village economies etc.

Compiler

DYNAMIC ANALYSIS (DYNAMICS) (*Economic methodology)

The study of the behaviour of systems, single markets or whole economies in disequilibrium situations.

Richard G. Lipsey

The concepts of statics and dynamics were introduced into the social sciences by Auguste Comte (1798-1857). J.S. Mill introduced them into economic theory. Comte adopted the terminology from the zoologist H. de Blainville. The terms were borrowed from zoology and not mechanics. Mill's definitions of statics and dynamics correspond to Comte's.

Joseph A. Schumpeter

DYNAMIC DETERMINATION (*Business cycles)

Certain forces engendered by a process of expansion which determine the limits to which it will proceed.

Dynamic determinants is one of the three foundation stones [the other two are Relation (acceleration principle) and multiplier] of Roy Harrod's theory (of business cycle) of the interaction of the multiplier and the principle of acceleration.

J.A. Estey

DYNAMIC ECONOMICS (*Economic methodology)

Those parts of economic theory where the problem of "dating" is conspicuously important.

John R. Hicks

The study of continuing changes of economic data as against the once-over changes of the economic data.

R.F. Harrod

The study of economic phenomena in relation to preceding and succeeding events.

William J. Baumol

A model whose behaviour over time is determined by functional equations in which variables, at different points of time are involved in an essential way.

Ragnar Frisch

DYNAMIC ECONOMY (*Economic methodology)

Dynamic economy in contrast to static economy is one in which population and capital are increasing, productive techniques improving, forms of industrial establishments are changing and the consumers' requirements are multiplying.

Compiler

DYNAMIC EQUILIBRIUM (*Economic methodology)

An economic system might be said to be in dynamic equilibrium if its total stock, including both things and people, change at a constant rate (per cent per annum) and if the rates of production and consumption of all five items of the stock increased at the same rate.

Kenneth E. Boulding

The equilibrium which maintains its position only within a given time but changes or is likely to change its position beyond the stipulated time.

Vaish and Sundharam

DYNAMIC THEORY OF PROFITS (*Theory of value)

The theory propounded by J.B. Clark. It states that profits arise only in a dynamic economy. In the words of Frank H. Knight, "In the static state each factor secures what it produces, and since cost and selling prices are always equal, there can be no profits beyond wages for the routine work of supervision."

Compiler

DYNAMICS (*Economic methodology)

That method of economic investigation which deals with an evolutionary process in a dynamic manner. There is no assumption of *ceteris paribus* as in statics.

Compiler

EARNED INCOME (*Public finance)

Normal or regular income accruing to factors of production, or income arising from genuine labour. David Ricardo regarded land rent as unearned income. In India, for the purpose of taxation, a distinction is made between earned and unearned incomes.

Compiler

EARNING ASSETS (*Monetary economics)

Bills of exchange, loans etc.

R.S. Sayers

EARNINGS OF UNDERTAKING OR MANAGEMENT (*Theory of value)

What remains of a businessman's profit after deducing interest on his capital at the current rate (allowing where necessary for insurance) is generally called his earnings of undertaking or management.

Alfred Marshall

EASY MONEY (*Monetary economics)

Cheap money.

L.V. Chandler

Money is said to be easy at times when more money is offered than asked for.

Geoffrey Crowther

EASY MONEY POLICY (*Monetary economics)

Cheap money policy.

Compiler

ECO SYSTEM (*Demography)

A system in which there are a number of populations, each of which consists of individuals which are identical for purposes of this level of abstraction, i.e., individuals whose differences can be neglected.

Kenneth E. Boulding

ECOLOGY (*Demography)

The general study of the equilibria and dynamics of population.

Kenneth E. Boulding

ECONOMETRIC SOCIETY (*Econometrics)

Founded in 1930, the Society aims at stimulating econometric studies and making economics more exact identical with natural sciences. Its periodical—*Econometrica*—carries over the results of econometric research work.

In 1949, the Society had 866 members from all over the world. In

the year the country-wise break-up was:

U.S.A.	477	Argentina	16
France	56	Spain	12
England	43	India	11
Netherlands	35	Japan	11
Norway	28	Denmark	11
Canada	17	Switzerland	11
Italy	17	Germany	10
Sweden	16		

Compiler

ECONOMETRICS (*Econometrics)

The name for a field of science in which mathematical, economical, and mathematical-Statistical reasearch are applied in combination.

Jan Tinbergen

A branch of economics in which measurement of the relationships discussed in *a priori* economic analysis is studied.

Lawrence R. Klein

The combination of theoretical and statistical analysis.

Wassily Leontief

That branch of Economics which employes mathematical and statistical methods for the testing and verification of economic theories. The use of econometrics has been confined largely to problems which are included in partial equilibrium theory and in the theory of income and employment. Attempts at large-scale econometric models of an entire economy have not been very successful.

M.L. Seth

Econometrics is a branch of economics in which economic analysis, mathematics and statistics are integrated.

The term econometrics was coined by the first Nobel Laureate the late Ragnar Frisch on analogy with Biometrics, i.e., Statistical Biology. The late Joseph. A. Schumpeter preferred to call it Ecometrics on philosophical grounds.

Count Pietro Verri (1728-97) might be considered as the father of econometrics. Nevertheless, econometrics is an young and nascent science. The *Econometrics Society* was formed in 1930 and the first issue of *Econometrica*—the periodical of the society—was published in January 1933.

The pioneers in the field of econometrics include Sir William Petty, Richard Cantillon, Quesnay, Irving Fisher, P.H. Douglas, Henry Ludwell Moore, A.L. Bowley, Ragnar Frish, Henry Schultze, Wesley Mitchell, Wassily Leontief, Jan Tinbergen, P.A. Samuelson, and J.R Hicks.

Lord Keynes was a master econometrician.

Compiler

The founding of the Econometric Society pre-dates Keynes's The General Theory (1936) by several years, but econometrics remained an esoteric branch of economics until Keynes made his impact. By the end of World War-II econometrics had become the leading growth industry of economics.

Mark Blaug

ECONOMIC ACTIVITY (*Economics)

Relating of means to ends.

Briggs and Jordan

Efforts directed towards increasing the yield of a given effort or resource or towards reducing the cost of a given yield.

Arthur Lewis

By an *economic* phenomenon or activity is meant every systematic endeavour to satisfy a material need, or more precisely, one which seeks with the available means to achieve the greatest possible result or a given result with the least possible use of means.

Knut Wicksell

ECONOMIC ANALYSIS (*Economics)

The term refers to analytic or scientific aspects of economic thought. What distinguishes the 'scientific' economist from all the other people who think, talk, and write about economic topics is a command of techniques that we class under four heads: history, statistics, theory and economic sociology. The four together make up what we shall call Economic Analysis.

J.A. Schumpeter

The new name suggested for economics by some economists like Joseph A. Schumpeter and Kenneth E. Boulding.

Compiler

ECONOMIC AND POLITICAL WEEKLY (*History of economic thought)

A leading Bombay (India) journal started in August 1966 by the late Shri. Sachin Choudhuri. Shri. Chaudhuri edited it for 17 years under the name—*Economic Weekly*. After his death Dr.R.K. Hazari, a well-known Indian economist became its editor.

Compiler

ECONOMIC AND SOCIAL COUNCIL (*International economics)

Popularly known as ECOSOC, it is one of the six principal organs of the UNO. [The other five organs are: (1) The General Assembly, (2) The Security Council, (3) The Trusteeship Council, (4) The International Court of Justice and (5) The Secretarist]. It was constituted in 1945 under the provisions of Chapter-X of the charter of the UNO. The Council consists of 18 members, six of whom are elected annually for a period of three years of the General Assembly. It meets as often as is necessary, usually twice a year.

"Ecosoc drafts studies and reports on, and makes the preparations for the sessions of the General Assembly in respect of international economic and social problems. If need be, it calls international conferences, gives advice and assistance to the Security Council and, with the consent of the General Assembly, provides services to the member States".

The Council has set up a number of functional and regional commissions and special committees.

The Council is entrusted with the task of promoting higher standards of living, full employment, economic and social expansion, international co-operation in educational and cultural fields, and world-wide respect for and observance of human rights and freedom.

Compiler

ECONOMIC BIOLOGY (*Economics)

Expression used by Alfred Marshall. By this he apparently means the study of the economic system as an organism evolving in historical time.

Mark Blaug

ECONOMIC CONDUCT (*General economics)

Conduct directed towards the acquisition of goods.

J.A. Schumpeter

ECONOMIC CYCLE (*Business cycles)

The alternation of relatively prosperous and depressed times together with all the concomitant changes in all parts of the economic system which extends over the period of three to twelve years. This movement we call business cycle proper.

Gottfried Von Haberler

ECONOMIC DEVELOPMENT (*Economics of development)

A spontaneous and discontinous change set in motion by an impelling spirit of expansion....Development takes place because of forces working within the system when other factors are given.

J.A. Schumpeter

A process whereby an economy's real national income increases over a long period of time.

There is a tendency to use the terms "economic development", "economic growth", and "secular change" interchangeably.

G.M. Meier and R.E. Baldwin

The term refers to an increase in per capita real income.

Hsu

The term 'development' should relate to backward countries where there is possibility of developing and using hitherto unused resources.

Ursula K. Hicks

Economists like Ursula Hicks and Bright Singh make a subtle distinction between 'economic growth' and 'economic development'. Thus: "Economic growth is supposed to be a natural or normal process requiring no special efforts on the part of the community. Economic development, on the other hand, involves structural changes without which the inertia of the social system cannot be overcome and a decisive break with the past achieved. The economic advance of the U.S.A. in the nineteenth century is, thus, referred to as economic growth whereas that of the U.S.S.R. and of the countries of Asia and Africa in the twentieth century, based as it is on conscious endeavour, is more aptly described as belonging to the latter category."

The National Planning Commission, of India and Dr. V.K.R.V. Rao use terms 'growth' and 'development' interchangeably.

Compiler

ECONOMIC DETERMINISM (*Marxian economics)

All known as Economic Interpretation of History or Materialistic concept of History it is the theory advanced by Karl Marx. According to Marx, the events of any historical epoch are determined by the economic institutions prevailing at the time rather than by the wishes and will of individuals living in that period. In other words, all historical development is determined solely by economic institutions in a country.

M.L. Seth

ECONOMIC DYNAMICS (*Economic methodology)

I call Economic statics those parts of economic theory where we do not trouble about dating; economic dynamics those parts where every quantity must be dated. For example in economic statics, we think of an entrepreneur employing such and such quantities of factors and producing by their aid such and such quantities of products, but we do not ask when the factors are employed and when the products came to be ready. In economic dynamics, we do ask such questions; and we pay special attention to the way changes in these dates affect the relations between factors and prices.

J.R. Hicks

We call a relation static if it connects economic quantities that refer to the same point of time. Thus if the quantity of a commodity that is demanded at a point of time (t) is considered as dependent upon the price of this commodity at the same point of time (t), this is a static relation. We call a relation dynamic if it connects economic quantities that refer

to different points of time. Thus if the quantity of a commodity that is offered at a point of time (t) is considered as dependent upon the price that prevailed at the point of time(t-1), this is a dynamic relation.

J.A. Schumpeter

Then dynamics would be concerned with an economy in which the rates of output are changing. We should have as correspondent concepts of velocity in physics, a steady rate of change (of increase or of decrease) in the rate of output per annum; acceleration (or deceleration) sould be a change in this rate of exchange.

R.F. Harrod

Dynamic economics is the study of the path by which a set of economic quantities (i.e. prices and quantities) reach equilibrium within a static equilibrium.

G.J. Stigler

It is the essence of Dynamics that economic variables at different points of time are functionally related or what is the same thing, that, there are functional relationships between economic variables and their rates of change, their velocities, accelerations or higher derivatives of derivatives.

P.A. Samuelson

Economic statics and economic dynamics are the branches of economics.

August Comte (1798-1857), a theoretical physicist who is credited with the discovery of the concept of evolution in human society, is believed to have inducted the concepts of 'Dynamics' and 'Statics' into social sciences. The terms were injected into political economy by John Stuart Mill. Comte borrowed the terms from H. de Blainville, a zoologist. J.A. Schumpeter and G.J. Stigler divided in their opinion regarding the source of the terms. The former argues that the terms were adopted from physics while the latter contends that the terminology is culled from mechanics. However, as Schumpeter himself later admitted, the terms were lent by zoology.

Notwithstanding the fact that economic dynamics is relatively a recent development, its examples are to be found in the writings of the Classicists. The use of geometric ratio by Rev. T.R. Malthus in his theory of population, the principle of acceleration by J.M. Clark and the theory of business fluctuations by Aftalion are some of the outstanding instances of dynamic analysis.

Nevertheless, the fact is that the method has made notable(or real) progress only after 1925. The credit of poineering this method in the present century goes to Ragnar Frisch, Jan Tinbergen, Paul. A. Samuelson,

Gottfried Von Haberler, F. Zuethen, Roos, M.Kalecki, Dennis H. Robertson, Sir Roy. F. Harrod, Kapp, Alvin Hansen and Fritz Machlup. Alfred Marshall, though primarily a statical economist, contributed no less to dynamics.

The dynamic analysis is used in mathematical models of growth, trade cycles, analysis of national income *et al.*

Compiler

ECONOMIC ETHICS (*Economic methodology)

Economic ethics in contrast to pure economics, tells us what ought to be. The term can be taken to mean normative or welfare economics.

Compiler

ECONOMIC (OR PRODUCTIVE) EMPLOYMENT (*Economics of labour)

Employment which brings about a net addition to total product produced by the country.

Alak Ghosh

ECONOMIC ENVIRONMENT (*Theory of value)

The conditions under which man conducts the struggle to satisfy his wants.

Fairchild, Buck and Slesinger

ECONOMIC EQUILIBRIUM (*Theory of value)

Equilibrium.

Compiler

ECONOMIC FORCE (*Theory of value)

An influence that tends to affect the behaviour of human beings in their effort to earn a living or to satisfy their wants.

Forster and Leager

ECONOMIC FREEDOM (*Economics of development)

Freedom of individual to change his social status or his occupation; freedom to hire resources and to combine them, in ways which increase output or lower costs; and freedom to enter trades in competition with others who are already established in those trades.

Arthur Lewis

ECONOMIC FRICTION (*General economics)

This takes place when non-economic factors hinder the smooth working of economic laws.

M.L. Seth

The term refers to forces that impede the full or rapid operation of economic laws.

Compiler

ECONOMIC GEOGRAPHY (*Branches of economics)

Economic geography may be defined as the study of the distribution of economic activities and their relations to their physical environment.

Michael Chisholm is the father of modern economic geography.

Klim, Starkey and Hall

The study of economic activities of human beings within limits set by the physical environment of the place.

Or

The study of economic activities influenced by the physical environment.

Michael Chisholm

A study of economic activities of human beings within limits set by physical and cultural environment.

Huntington

The study of a real variation on the earth's surface in man's activities related to producing, exchanging and consuming wealth.

Alexander

ECONOMIC GOODS (*Theory of value)

Those goods that are so scarce relative to human wants that human effort is required to obtain them.

Albert L. Meyers

An economic goods is anything that has value.

Fairchild, Buck and Slesinger

Goods capable of being owned, which are scarce, or whose production requires effort.

Raymond Bye

The goods which are scarce and capable of being economized.

Anatol Murad

Goods that are limited in supply.

Forster and Leager

The term "economic goods" coined by Dr. Alfred Marshall, refers to man-made goods in contrast to free goods or natural resources. It is argued that economic goods are scarce and command price while free

goods are obtainable free of cost and are abundant. This distinction is now outmoded in view of the fact that free goods are as scarce as man-made goods and command price.

Compiler

ECONOMIC GROWTH (*Economics of development)

The transformation of a society or a country from a state of underdevelopment to a high level of economic achievement.

Or

The process of transformation of low-income countries into high income ones.

Bright Singh

It refers to the annual rate of growth of the national income or the total volume of goods and services in a country. Generally economic growth is measured by the annual rate of increase in a nation's gross national product, as adjusted for price changes. A better measure is the increase in the *real* gross national product *per capita* because in most of the underdeveloped countries the increases in national output are surpassed by the increases in population, leaving the average person with a lowered living standard.

M.L. Seth

The term 'growth' is applicable economically advanced countries where most of the resources are already known and developed. However, clear distinction between 'growth' and 'development' is not possible.

Ursula K. Hicks

Growth in contrast to development is spontaneous and characterizes advanced free enterprise economies.

Bonne

The term implies growth in the amount of goods and services produced.

G.L. Bach

The terms 'economic growth' and 'economic development' are different without distinction, although it is argued that growth is spontaneous whereas development is induced. Happily the terms are interchangeably employed.

Compiler

ECONOMIC HISTORY (*Branches of economics)

The study of economic phenomena existing at any given period in the past and traces the actual progress of such phenomena over successive periods.

John Neville Keynes

A branch of general institutional history, a study of the economic aspects of the social institutions of the past.

Encyclopaedia of Social Sciences

ECONOMIC HOLDING (*Agricultural economics)

The minimum area capable of yielding sufficient produce to enable the holder to maintain a normal family (that is to say a family of five persons including the holder himself) in reasonable comfort, according to prevailing standards after meeting all necessary expenses and without resort, save in exceptional circumstances, to the raising of loans.

P.C. Jain

An area of land, the cultivation of which enables a family of farmers to enjoy a reasonable standard of living without help from outside sources.

The large-scale existence of uneconomic or toy land holdings is one of the serious reasons of agricultural stagnation and rural poverty in India.

Compiler

ECONOMIC INCOME (*Theory of value)

Money income plus imputed income (rental value of owned homes).

G.J. Stigler

ECONOMIC INTEREST (*Theory of value)

Pure interest.

Compiler

ECONOMIC LAWS (*Economics)

Economic laws or statements of economic tendencies are those social laws which relate to branches of conduct in which the strength of the motives chiefly concerned can be measured by a money price.

Alfred Marshall

Like all other sciences—natural and social—economic science too has its own laws. An economic law is a statement of cause and effect.

The laws of economics are not as exact as the laws of natural sciences. The reason is simple. Economics is concerned with man's economic behaviour. Man's behaviour constantly changes, and when human behaviour changes, naturally the economic laws are invalidated. This is not the case with natural sciences. They deal with objects—whether animate or inanimate—which remain the same.

In view of the above said difficulty, every economic law is prefixed with the qualifying phrase—*ceteris paribus* i.e., other things remaining constant.

While it is true that economic laws are essentially hypothetical, it is dangerous to argue that natural laws are 100 per cent correct. For instance, the famous law of gravitation is rendered false if a piece of paper thrown up, starts flying (due to wind) instead of falling down to the earth.

Compiler

ECONOMIC LIBERALISM (*Economics of development)

That system of economic organisation in which free enterprise, competition, and the private ownership of property generally prevail.

Compiler

ECONOMIC MAN (*Economics)

One who is completely rational in statisfying his wants and pays no regard to the interests of others.

A.K. Cairncross

A mythical individual who carefully calculates just what he should buy before he spends each unit of money, comparing the satisfactions obtainable from every conceivable expenditure before he parts with his cash.

George L. Bach

A man who is under no ethical influences and who pursues pecuniary gain warily and energetically, but mechanically and selfishly.

Alfred Marshall

An abstruse concept introduced by David Ricardo to mean rational or prudent man. It is also called *homo oeconomicus.* (David Ricardo is also called Mr. Suppose, since he was the first to say "suppose"). The assumption of 'economic man' is the most fundamental of all economic hypotheses, though man's behaviour is, by and large, irrational or uneconomic due to many reasons. Should we banish the assumption of economic man or rationality, the whole economic corpus collapses. This is the beauty of economics.

Compiler

Adam Smith broke with the canonical conception of market behaviour as a moral problem and fashioned the concept of "economic man".

Mark Blaug

ECONOMIC MATURITY (*Economics of development)

A stage beyond which economic growth is not possible.

Frederic C. Benham

The theory of "economic maturity" or "secular stagnation" is associated with the name of Alvin H. Hansen. The Hansen thesis maintains that in the absence of appropriate monetary and fiscal policy, advanced capitalist countries are subject to chronic and increasing underemployment. It calls for government intervention of a more continuous nature.

Because the thesis was advanced during the second Roosevelt administration, the theory became linked in the minds of the public with "New Deal Economics".

Benjamin Higgins

ECONOMIC MODEL (*Economics of development)

A snapshot of things as conceived by a theoretician about the logic of events of a given economy. It is a theoretical abstraction about various interrelationships likely to come into existence in the course of development of a given economy in the context of circumstances which are presumed to move in some definite anticipated pattern, the inter-relationships pertaining to the chief components which matter for setting the course of economic events in certain directions.

T.N. Sachdeva

It refers to *mathematical* statement of economic theory. It represents a method of analysis which presents to us an *over-simplified* picture of the real economic world....An economic model is generally set out in an equation form with diagrams or with words.

M.L. Seth

The term economic model is derived from the glamour world for "theory of economic development".We have, for example, the Classical model, Harrod-Domar model, Mahalanobis model, and so on. An economic model lays down the conditions of economic growth.

Compiler

ECONOMIC MORPHOLOGY (*Economics)

The classification and study of the different pure market forms of which actual markets may be made up.

Compiler

ECONOMIC NATIONALISM (*International economics)

Also known as Autarchy, it refers to the objective of a nation to make itself economically independent of others.

M.L. Seth

The term denotes the policy which aims at national self-reliance bolstered by tariffs, exchange controls etc.

Alexander Hamilton (U.S.A), Henry Carey (U.S.A), S.N. Patten (U.S.A) and Friedrich List (Germany) who advocated protection as

opposed to Classicial free trade policy are designated as economic nationalists.

Compiler

ECONOMIC ORGANISATION (*Theory of value)

The Social (and rarely individual) arrangement to deal with the production and distribution of economic goods and services.

G.J. Stigler

ECONOMIC PARADOXES (*Economic methodology)

The term alludes to "macro-economic paradoxes".

See also "Macro-economic paradoxes".

Compiler

ECONOMIC PHENOMENON OR ACTIVITY (*Theory of value)

Systematic endeavour to satisfy a material need or, more precisely one which seeks with the available to achieve the greatest possible result or a given result with the least possible means.

Knut Wicksell

ECONOMIC PLANNING (*Economics of planning)

Economic planning is the making of major economic decisions—what and how much is to be produced, how and when where it is to be produced, and to whom it is to be allocated—by the conscious decision of a determinate authority on the basis of a comprehensive survey of the economic system as a whole.

H.D. Dickinson

A system in which the market mechanism is deliberately manipulated with the object of producing a pattern other than which would have resulted from its spontaneous activity.

Mrs. Barbara Wootton

A totality of arrangements decided upon in order to carry out a project concerned with economic activity. In the full sense of the word, (as distinguished from partial plans of production, allotment, or distribution, investment plans etc.) an economic plan is a plan concerned with the whole of economic life or the entire activity of an economic unit.

Charles Bettelheim

Planning may be defined as the conscious and deliberate choice of economic priorties by some public authority.

Barbara Wootton

In its widest sense, economic planning is deliberate direction, by persons in charge of large resources, of economic activity towards chosen ends.

Hugh Dalton

A method of economic administration in which, instead of looking towards small and unrepresentative minorities of share-holders, the persons or corporations directing production would look upwards or towards a Central Economic Authority for guidance on the larger questions of output, prices and costs.

E.F.M. Durbin

Economic planning is a mechanism for co-ordinating economic decisions...a plan is a method of taking a combined decision about all...so that all the separate parts harmonize or fit together.

Maurice Dobb

Direction of productive activity by a central authority.

Planning is socialism; socialism is collectivism; collectivism is fascism, Nazism and Communism.

F.A. Hayek

To plan is to act with purpose to choose; and choice is the essence of economic activity.

Or

Planning in the modern jargon involves government control of production in some form or other.

Or

Planning is collective control or supersession of Private activities of production and exchange.

Lionel G. Robbins

Economic planning is the means of subjecting the operation of economic laws and the economic development of society to the direction of human will.

Oscar Lange

Economic planning means co-ordination through a conscious effort, instead of the automatic co-ordination which takes place in the market and that conscious effort is to be made by an organ of society. Therefore, planning is an activity of collectivist character and is regulation of the activities of individuals by the community.

Carl Landauer

Economic planning means securing a better balance between demand and supply by a conscious and thoughtful control either of production or distribution or of both, rather than leave this balance to be effected by automatically working, invisible and uncontrollable forces.

Herman Levy

A scheme of organisation in which individual and separate plants, enterprises and industries are treated as co-ordinate units of one single system for the purpose of utilising available resources to achieve the maximum satisfaction of the people's needs within a given time.

Lewis Lorwin

Economic planning implies state determination of investment and its distribution, of occupation of consumers' choice. It involves progressively the destruction of private property and it leads to national self-sufficiency.

John Jewkes

Planning under a democratic system may be defined as the technical co-ordination by disinterested experts, of consumption, production, investigations, trade and income distribution in accordance with the special objectives set by the bodies representative of the Nation.

National Planning Committee of India

A conscious and carefully thought-out process initiated by the State, for estimating the potential wealth of the country and for utilizing the available resources as efficiently as possible with a view to fulfil some definite long-term objective.

Alak Ghosh

A scheme of economic organisation in which individual family and institutional plans are treated as subordinate and co-ordinate units of one single economic system for purpose of utilizing all the available resources to achieve maximum efficiency in prodution and increased welfare and satisfaction to the nation, even at the risk of dissatisfaction to some individuals, institutions and sections of the community,

C.B. Mamoria

Planning is an organised, conscious and continual attempt to select the best available alternatives to achieve specific goals. It involves the economising of scarce resources. It has been used for a variety of ends, by different societies and in different ways. It is not limited to socialistic solutions. It can be and is used by democratic and capitalistic countries.

Albert Waterson

We may define economic planning as a process in which the state makes a careful study of the available resources and utilizes them in a manner that brings maximum communal welfare.

The concept of economic planning is about 2000 years old. Plato, the Greek philosopher is believed to have brought into vogue the term planning as back as 400 B.C. The mention was made about the term in Thomas More's *Utopia* (1516), Tommaso Campanell's *Civitas Solis* (1623), and William Godwin's *Enquiry Concerning Political Justic* (1793).

However, the term planning emerged in its scientific and present-day connotation only in 1928 when the U.S.S.R. launched its first ever Five Year Plan. Hence Lenin may be regarded as the Father of planning.

Insofar as the Indian sub-continent is concerned, the late Bharat Ratna Sir, Mokshagundam Visveswaraya of Karnataka, may be considered as the father of Indian planning. His book *Planned Economy for India* (1934) laid the foundation of economic planning in the country. Subhas Chandra Bose's unflinching advocacy for and Jawaharlal Nehru's indomitable faith in planning were instrumental in ushering in India the era of planning. In 1935, Dr. Bowley and Prof. D.H. Robertson had pointed out the need for formulating an economic plan for India. In 1938, Subhas Bose who was then the president of the Indian National Congress set up the National Planning Committee under the Chairmanship of Jawaharlal Nehru. Due to the arrest of prominent Congressmen by the British, the work of the Committee was interrupted between 1942 and 1948. The Committee could submit its plan only in 1949. In August, 1944, the British Government instituted the department for planning and development with Ardeshir Dalal as its member-in-charge. The Interim Government appointed in 1946 an Advisory Planning Board.

But the true era of planning started in 1950. In March 1950, the Indian Government established the Planning Commission. Jawaharlal Nehru, the first and foremost Prime Minister of India became the first ex-officio Chairman of the Planning Commission. Soon was born the National Development Council(N.D.C). The Planning Commission which sits in *Yojana Bhavan*, in New-Delhi, presented a Draft Outline of the First Five-Year Plan (1951-56) in July 1951. The final draft was presented to the nation in December, 1952. Now the sixth plan (1980-85) is going on.

[During the interval between 1938 and 1951 three paper plans in the sense they never came into existence, were prepared by private individuals. They were: (1) A plan for Economic Development (Popularly called Bombay Plan or Tata-Birla Plan) by eight industrialists of Bombay (143), (2) People's Plan by M.N. Roy and, (3) Gandhian Plan by Shriman Narayan Agarwal of Wardha.]

Compiler

ECONOMIC POLICY (*Economics of development)

The term economic policy may be used broadly to comprehend all government action in the economic sphere—more or less deliberate government intervention in production, distribution and consumption.

Encyclopaedia of Social Sciences

Economic policy is of two types—international and national. The former denotes economic policy towards the outside world. National economic policy is subdivided into wage policy, price policy, food policy, industrial policy, employment policy, and so on.

National and international economic policies influence each other.

Compiler

ECONOMIC POWER (*Economics of development)

The term is usually used to signify rich countries. It also denotes the command of an economy over resources in men and materials.

Compiler

ECONOMIC PROBLEMS (*Economics of development)

The economic problem is essentially a problem arising from the necessity of choice; choice of the manner in which limited resources with alternative uses are disposed of. It is the problem of husbandry of resources.

Eric Roll

The questions and situations arising from the operation of an economic system which are difficult to solve, settle, or manage.

Anatol Murad

Economic problem is the problem of utilising the limited means in the best possible manner, so as to satisfy most urgent wants.

T.N. Sachdev

Food problem, unemployment problem, problem of rising prices, population problem, international liquidity problem are some of the instances of economic problems.

Compiler

ECONOMIC RENT (*Theory of value)

It is defined as any payment to a supplier in excess of the minimum sum necessary to keep him supplying.

Kenneth E. Boulding

Any payment made to a factor (of production) over and above that necessary to keep it in its present use; economic rent is therefore, the difference between the factor's actual earnings and its transfer earnings.

Richard G. Lipsey

Any differential surplus arising out of natural or artificially created scarcity in production.

Raymond Bye

The surplus received by any factor of production above its opportunity cost, that is, any surplus over and above what was necessary to keep that factor in its present employment.

Vilfredo Pareto

Whenever any unit of a factor of production is receiving a greater income than the minimum amount necessary to induce that factor to

remain in its present occupation, the surplus of receipts over its minimum supply price may be called an economic rent.

Albert L. Meyers

'Economic' rent takes into account only of payments for the use of land. It excludes interest on a landlord's capital investment. It is sometimes described as a 'surplus' because it does not result from any effort or activity on the part of the land-owner.

A.W. Stonier and D.C. Hague

The payment for the use of scarce, non-reproducible resources.

George L. Bach

Income received by any sort of productive factor over and above what it could earn in the next best use.

Allen, Buchanan and Colberg

The term economic rent is used in the following four senses:

1. First, it refers to the payment made for the use of those factors of production whose existence is not dependent on any human effort or sacrifice. This is land-rent.
2. Second, the term is employed for the surplus earned by a unit of a factor of production over and above the minimum earnings necessary to induce it to stay in the present use, industry or occupation. It can also be defined as the payment to a unit of a factor of production in excess of of its transfer earnings.
3. Thirdly, Marshall extended the concept to cover the earnings of fixed capital equipment like machinery in the short run. This is quasi-rent.
4. Finally, the term has been used to denote the differential payment made to more efficient units of a factor. In other words, the excess of earnings of a more efficient unit of a factor in excess of the earnings of least efficient unit of that factor is called rent.

H.L. Ahuja

ECONOMIC RESEARCH (*Economics of development)

The investigation of the nature and causes of wealth including the allocation of scarce resources to achieve given ends.

Robert Ferber and P.J. Verdoorn

ECONOMIC SERVICE (*Theory of value)

Useful and relatively scarce non-material goods.

Sam Rosen

Goods are divided into : (1) Commodities (material goods) and (2) economic services or simply services (non-material goods).

The services of teachers, constables, doctors, maid servants etc., are examples of economic services.

Compiler

ECONOMIC SOCIOLOGY (*Economics)

(Economic analysis deals with the questions how people behave at any time and what the economic effects are they produce by so behaving;) economic sociology deals with the questions how they came to behave as they do.

J.A. Schumpeter

The phrase Economic Sociology is due to J.A. Schumpeter. He borrowed it from German "Wirtschhaftssoziologie". He believes that the phrase is due to Gerhard Colm. According to Schumpeter, economic sociology is the fourth fundamental field, the first three being (1) economic history, (2) statistics and statistical method, and (3) economic theory.

Compiler

ECONOMIC STABILITY (*Economics of development)

The term is usually referred by economists to 'Stability' in the level of prices, or in the level of employment or of output, or in the relative proportions of outputs of different commodities, or in the proportions of different factors taken as input. The term 'economic stability' can be used both in a static as well as dynamic context. It is possible to refer to a 'dynamic situation' as stable, if there is a constancy in the annual percentage rate of change in the level of prices, or in the volume of employment or output.

C.N. Vakil

ECONOMIC STAGNATION (*Economics of development)

Potentially high levels of national income where the propensity to consume is low, the propensity to save is high and the inducement to investment is not strong enough to absorb the savings which the society would wish to make at high income levels.

Philip E. Taylor

ECONOMIC STATICS (*Economic methodology)

A method of dealing with economic phenomena that tries to establish relations between elements of the economic system—prices and quantities of commodities—all of which have the same point of time.

Ragnar Frisch

Auguste Comte (1798-1857) introduced the concepts of statics and Dynamics into the social sciences. He borrowed the terminology from the zoologist H. de Blainville. J.S. Mill introduced these terms into economic theory and defined statics as the theory of 'the economical

phenomena of society considered as existing simultaneously'. This definition, by itself, must pass muster as anticipation of the modern definition (Ragnar Frisch). Statics as thus defined pivots on the concept of (stable or unstable) equilibrium.

By static analysis is meant (adapting from Frisch) a method of dealing with economic phenomena that tries to establish relations between elements of the economic system—prices and quantities of commodities—all of which have the same time subscript, that is to say, refer to the same point of time. The ordinary theory of demand and supply in the market of an individual commodity will illustrate this case; it relates demand, supply, and price as they are suppposed to be at any moment of observation—nothing else is taken into consideration.

Static theory involves a high level of abstraction.

Compiler

I call economic statics those parts of economic theory where we do not trouble about dating. For example, in economic dynamics, we think of an entrepreneur employing such and such quantities of factors and producing by their aid such and such quantities of products, but we do not ask when the factors are employed and when the products came to be ready.

John R. Hicks

We call a relation static if it connects economic quantities that refer to the same point of time. Thus, if the quantity of a commodity that is demanded at a point of time (t) is considered as dependent upon the price of this commodity at the same point of time (t), this is a static relation.

J.A. Schumpeter

ECONOMIC SURPLUS (*Theory of value)

The more traditional name for it is economic rent.

Any payment to a factor of production which is in excess of its total supply price, that is of the minimum amount which is necessary to keep the factor in its present occupation.

Kenneth E. Boulding

ECONOMIC SURVEY (*Public finance)

An annual white paper in which forecasts of national income of England are published. The Chancellor of Exchequer frames his policy in the light of such forecasts.

Frederic C. Benham

In India too similar Economic Survey (relating to the current fiscal year) is presented to the Parliament by the Union Finance Minister

sometime before the presentation of the Budget. The Economic survey which is an annual feature reviews the existing economic situation in the country and indicates the budgetary trends.

Compiler

ECONOMIC SYSTEM (*Economics of development)

It consists of the rules, laws, customs and principles which govern the operation of an economy.

Anatol Murad

The economic systems are categorised into Robinson Crusoe economy and Social economy.

In all the economic systems, the basic problem is the allocation of scarce means among competing ends for the achievement of maximum results. Robinson Crusoe economy is one man economy. Production in a social economy is a process in which millions of people co-operate. Social economy is of the following three types:

(1) Capitalism or market economy,

(2) Socialism or centrally planned economy,

(3) Mixed or dual economy.

India has adopted mixed system.

Compiler

ECONOMIC TIMES (*Economic History)

A leading economic daily published by the Times of India Group, Bombay. The other daily is *Financial Express* published by the Indian Express Group, Bombay.

Compiler

ECONOMIC THEORIST (*Economics)

One who spends more than half of his professional time in theorizing on economic problems.

George J. Stigler

ECONOMIC THEORY (*Economics)

One of the four fundamental fields of Economic Analysis, the other three being (i) economic history, (ii) statistics and (iii) economic sociology.

The term economic theory carries many meanings.

J.A. Schumpeter

Economics can be divided into three parts. These are descriptive economics, economic theory and applied economics. (In descriptive economics one collects together all the relevant facts about particular topics.) In economic theory or economic analysis as it is often called, one gives a simplified explanation of the way in which the economic system works and of the important features of such a system. (Applied economics attempts to use the general framework of analysis provided by economic theory to explain the causes and significance of events reported by descriptive economists.)

A.W. Stonier and D.C. Hague

ECONOMIC THOUGHT (*History of economic thought)

The sum total of all the opinions and desires concerning economic subjects, especially concerning public policy bearing upon these subjects that, at any given time and place, float in the public mind.

Or

The opinions on economic matters that prevail at any given time in any given society and belong to the province of economic history rather than to the province of the history of economics.

J.A. Schumpeter

The term adverts to economic ideas of economists.

Compiler

ECONOMIC UNION (*International economics)

Economic integration of two or more countries.

In an economic union:

(a) movements of persons, goods and capital are unrestricted;
(b) the necessary co-ordination is achieved in the determination and implementation of economic, financial and social policy;
(c) dealings with non-member countries are conducted as an economic, financial and social entity, save in purely domestic matters which have no effect on member countries.

M.A.G. Van Meerhaeghe

ECONOMIC UNIT (*Theory of value)

The entity that makes decisions—the house-hold, the firm, the labour union, the cartel etc.

G.J. Stigler

ECONOMIC WEALTH (*Theory of value)

Broadly the command over goods and services that are desired or having consuming power for short.

Joan V. Robinson

(See also "wealth."—Compiler)

ECONOMIC WELFARE (*Welfare economics)

That part of general welfare which can be brought directly or indirectly into relation with the measuring rod of money.

Alvin Cecil Pigou

(An increase in) the satisfaction derived from goods and services.

I.M.D. Little

Economic welfare consists of the subjective satisfactions that individuals get from consuming goods and services, and from enjoying leisure. The force of the word "economic" is that economic welfare is confined to those subjective satisfactions that, in fact or in principle, can be put under the measuring rod of money. More economic welfare, or a higher level of economic welfare, means more satisfaction or a higher level of satisfaction.

Donald S. Watson

(See also "welfare."—Compiler)

ECONOMICALLY MOTIVATED (*Economics of development)

Motivated to maximise gains with money as a measure of the degree of successful achievement.

G.M. Meier and R.E. Baldwin

ECONOMICS (*Economics)

Science which enquires into the nature and causes of the wealth of nations.

Adam Smith

Political economy or economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well-being.

Alfred Marshall

Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Lord Robbins

The range of our enquiry (Economics) becomes restricted to the part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money.

A.C. Pigou

The study of those principles on which the resources of a community should be so regulated and administered as to secure the communal ends without waste.

Or

Economics then may be taken to include the study of the general principles of administration of resources, whether of an individual, a business or a state, including the examination of the ways in which waste arises in all such administration.

Or

Economics is ... a study of the principles of administration of resources and selection between alternatives.

Philip Henry Wicksteed

Economics is the study of the general methods by which men co-operate to meet their material needs.

William Beveridge

The aim of political economy is the explanation of general causes on which the material welfare of human beings depends.

Edwin Cannan

Economics is the study of the principles governing the allocation of scarce means among competing ends when the objective of allocation is to maximise the attainment of ends.

George J. Stigler

Economics is the study of the administration of scarce resources and of determinants of employment and income.

Lord Keynes

Economics is the study how men and society choose with or without the use of money, to employ scarce productive resources to produce various commodities over time and distribute them for consumption, now and in the future, among various people and groups in the society.

Paul A. Samuelson

A study of the factors affecting employment and national income.

Frederic C. Benham

A study of household management.

Aristotle

The study of the laws that govern wealth.

J.B. Say

Economics is the science that deals with human wants and their satisfaction.

A.L. Meyers

Political economy treats chiefly of the material interest of nations. It enquires how the various wants of the people of a country, especially those of food, clothing, fuel, shelter, of sexual instinct etc. may be satisfied; how the satisfaction of these wants influences the aggregate national life and how in turn, they are influenced by the national life.

W. Roscher

The science that studies human behaviour as the effort to minimise pain in the long run or in other words as an endeavour to gain freedom from wants and reach the state of happiness.

Or

Economics is a science that studies human behaviour as a means to the end of wantlessness.

J.K. Mehta

An abstraction from the general melee of social phenomena based primarily on those magnitudes which are descriptive of the production, consumption and exchange of commodities.

Kenneth E. Boulding

Economics is what economists do.

Jacob Viner

Economics is common sense made difficult.

Cynical definition

A social science studying how people attempt to accommodate scarcity to their wants and how these attempts interact through exchange.

A.K. Cairncross

Political economy is the practical science of the production and distribution of wealth.

J.S. Mill

A study of market processess.

Barbara Wootton

The science that treats phenomena from the stand point of price.

Herbert J. Davenport

The study of how the goods and services we want get produced and how they are distributed among us.

G.L. Bach

It is said to be only common sense dressed up in technical knowledge.

R.A. Lester

That branch of learning which deals with the social organisation and process by which the scarce means of production are directed toward the satisfaction of human wants.

Raymond Bye

The study of men as they live and move and think in the ordinary business of life.

Or

A study of the economic aspects and conditions of man's political, social and private life; but more especially of his social life.

Alfred Marshall

A social science concerned with the administration of scarce resources.

Tibor Scitovsky

The science of the satisfaction of human wants.

Jan Tinbergen

The science that deals with those human activities and relations arising out of man's effort to make a living.

G.W. Forster and M.C. Leager

Economics deals with social phenomena centring about the provision for the material needs of the individual and of organised groups.

E.R.A. Seligman

In the first half of the 19th century, economics itself was regarded as an investigation of "the nature and causes of the wealth of nation", "the laws which regulate the distribution of the produce of the earth", or simply "the laws of motion of capitalism." After 1870, however, economics came to be regarded as a science that analyzed "human behaviour as a relationship between given ends and scarce means which have alternative uses" an apt definition formulated in 1932 which if taken strictly would deny that much of what had gone before was economics. After two centuries of being concerned with the growth of resources and the rise of wants, economics after 1870 became largely a study of the principles that govern the efficient allocation of resources when both resources and wants are given.

Mark Blaug

The term economics is derived from the Greek *oikonomike* denoting the management of the household (*oikos*) which became in application to the household of a free commonwealth (*polis*), political economy. In 1615 Montechretin de Watteville identified political *economy* with public house keeping that included not only government finance but also the

bonne police, or regulation of agriculture, trade, and industry. In 1745 Claude Dupin published his *Oeconomiques*. Physiocrats were simply called *les economistes*. In Italy Genovesi advocated the term *civil* economics and Ortes pleaded for the term national economics. During the 19th century the term *Nationalokonomic* was in vogue in Germany.

In England William Petty was the first to speak of "political economics" and of "oeconomicks" in the sense of "political arithmetic". In 1755 Hutcheson spoke alternatively of "oeconomics, and politics" and "civil polity". Steuart's *Inquiry into the Principles of Pollitical Oeconomy (1755)* however, popularised the term political economy, so that Adam Smith refers to it alternatively "as a branch of the science of a statesman or legislator" and as a discipline dealing with "the nature and causes of the wealth of nations". By the beginning of the 19th century the new discipline was everywhere called political economy.

During the 19th century economics was clearly distinguished from other related disciplines and various schools of thought emerged. Sporadic attempts were made to rename political economy. Whately called *Catallactics* or the science of exchange. Hearn used *Plutology*, or the science of wealth. Ingram insisted on the term Chrematistics, or the science of money making. Toward the end of the 19th century economists became aware of the fact that political economy was too narrow a designation for a discipline which dealt with economic relationships and economic change in society, often without reference to political factors. The new name preferred was economics or social economics, the latter particularly in Germany. Economics is the name given by Alfred Marshall in 1890. This change though attributed to poineers who include Mayo-Smith, E.B. Andrews, Pantaleoni and Dietzel, all the credit goes to Marshall.

Encyclopaedia of Social Sciences

ECONOMICS OF FULL EMPLOYMENT (*General economics)

An economic analysis which assumes that no resources are involuntarily unemployed so that an increase in the production of one thing necessarily involves the withdrawal of resources from some other employment.

Dudley Dillard

ECONOMICS OF SCARCITY (*General economics)

An economic analysis wherein we assume that all resources in the community are fully employed and that to set more resources to producing one commodity must inevitably mean that less of another commodity is made.

A.W. Stonier and D.C. Hague

ECONOMICS OF WASTE (*General economics)

An economic analysis in which there can be many unemployed resources—men and machines—which could be usefully employed

producing goods for the community, but are left idle because the level of activity is not high enough to keep them all fully at work.

A.W. Stonier and D.C. Hague

ECONOMICS OF WELFARE (*General economics)

Welfare economics.

See "Welfare economics".

Economics of Welfare is the title of A.C. Pigou's poineering voluminous book written in 1920.

Compiler

ECONOMIES OF SCALE (*Theory of value)

The term refers to advantages of large scale production.

Frederic Benham, A.K. Cairncross

Those economies which reduce the *average production costs* as the size of the plant increases. These economies can be discussed under two heads—(i) *internal* economies, and (ii) *external* economies. The former results from the increased size of the individual firm while the latter results from the increased size of the industry as a whole. Internal economies (or *economies of mass production*) result from the *indivisibility* of some factors and the advantages of specialisation. The advantages of internal economies are limited to a certain range of output only. Beyond this range of output, it is the *diseconomies of scale* which will be set in and offset the advantages accruing from internal economies. External economies of scale are those economies which no firm can gain through its own expansion but accrue to all the firms as the industry expands.

M.L. Seth

ECONOMISING (*Welfare economics/Theory of value)

Popularly it means spending less. As an economist uses the term, it may mean indeed, spending less for some things, but at the same time spending more for others.

George Soul

By economising we mean using the resources in money, goods, energy and time in such way that our satisfaction is maximized. Economics is the science of economising.

Compiler

ECONOMIST (*Economics)

Someone who knows the price of every thing and the value of nothing.

Oscar Wilde

A man who knows all about money and does not have any of it.

Allen, Buchanan and Colberg

Economist is a scientist who diagnoses the economic ills of the society and prescribes suitable remedies. His job is to suggest as to how poverty can be banished and how progress can be achieved and maintained.

Compiler

ECONOMY (*Welfare economics)

Etymologically it means the regulating or managing of a household, that is to say, the administration of household affairs and resources. It describes a branch of economic activity .... In current language "economy" means the administration of any kind of resources (time, thought or money for instance) in such a way as to secure their maximum efficiency for the purpose contemplated.

Philip H. Wicksteed

In one sense, the term means avoidance of waste of any kind and prudent utilisation of resources. In this connection we speak of economy measures. In another sense the term is the economic description of a country. Political scientists speak of polity; sociologists speak of society, and the economists, economy. For example British economy or Indian economy. Now-a-days the term is also employed by the growth economists to denote different sectors. For instance, agricultural economy, industrial economy, urban economy, rural economy and so on.

The term economy is derived from Greek *oikos* (house) and *nemein* (manage) thus meaning household management.

Compiler

ECONOMY IN GOVERNMENT (*Public finance)

The phrase implies that budgetary decisions direct limited resources into government use only to the extent that such use is more productive of satisfactions or national income when administered by government than by private economy.

Compiler

ECONOMY OF HIGH WAGES (*Economics of labour)

The principle enunciated by Lord Brassey in the middle of the 19th century. It deals with the connection between the wage-level and efficiency.

Maurice Dobb

It is believed by some people that higher wages will so increase the efficiency of the worker as to compensate the employer for the greater cost of labour.

M.L. Seth

ECONOMY OF ORGANISATION (*Theory of value)

According to Dr. Marshall, Prof. Bullock suggested that the term "Economy of organisation" should be substituted for "Increasing returns."

Compiler

EDGEWORTH, FRANCIS YSIDRA (1845-1926) (*History of economic thought)

An outstanding Anglo-Irish economist. Born at Edgeworthstown House, country Longford in Ireland, Edgeworth joined at the age of 17 Trinity College, Dublin. In 1877 he took M.A. degree from Oxford University. He first became a lecturer in logic and afterwards Professor of Political Economy at King's College, London. In 1891 he became Drummond Professor of Political Economy at Oxford. He remained a celibate throughout. He was a multilinguist: he had profound knowledge of several languages including French, German, Italian and Spanish. He successfully edited for 35 years the *Economic Journal* from 1891 to 1926 and held the Chair of Political Economy from 1891 to 1922.

Though Edgeworth reached Economics through Logic and Mathematics, he became one of the most original economists. Novelty was the hall-mark of his economics. He invented the indifference curve in 1881. His other novel contributions include contract curve, decreasing returns, and general equilibrium. In 1897, he presented the famous model of duopoly. He worked on Index numbers. "His name will stand forever in the history of statistics" (Schumpeter). He is one of the most original of marginalists. (Others include Pareto and Fisher.) He professed utilitarianism in season and out of season. He was a mathematician par excellence.

He did not write voluminous books. His slim books include:

(1) *New and Old Methods of Ethics* (1877) (92 pages).

(2) *Mathematical Psychics: An Essay on the Application of Mathematics to the Social Sciences* (1881) (150 pages).

(3) *Metretika* or The Method of Measuring Probability (1887).

(4) *Theory of Monopoly* (1897).

(5) *Theory of Distribution* (1904).

(6) *Papers Relating to Political Economy* (1925).

Of these, the most famous is *Mathematical Psychics* in which appear the novel ideas. *Papers Relating to Political Economy* is the collection of his 34 articles and 75 reviews written to learned journals. The book was published in three volumes by the Royal Economic Society (London) while the articles and reviews were collected by Edgeworth himself.

Edgeworth was the most faithful disciple of Jevons.

Compiler

EDGEWORTH'S MODEL OF OLIGOPOLY (*Theory of value)

Edgeworth's model is one of the three classical models of oligopoly, the other two being Cournot's model (1838) and Bertrand's model (1883). He developed it in his article "La Teoria Pura del Monopolio" published in *Giornale degli Economisti*, Vol. XV, 1897. This original article in Italian was not published in English until 1925. His solution is a variant of Bertrand's model.

He assumes: (i) mutual dependence is ignored, (ii) maximum supply is fixed, and (iii) prices are adjusted. Edgeworth by employing a peculiar pyramidal diagram demonstrated that oligopoly price would be indeterminate. His solution is "there will be an indeterminate tract through which an index of value will oscillate, or rather will vibrate irregularly for an indefinite length of time". "The Edgeworth model works with a perpetual oscillation of prices."

Edgeworth's solution constitutes a part of his general theory of competition.

Compiler

EFFECTIVE COMPETITION (*Theory of value)

Also called workable competition, the concept has come forward in the discussions of anti-trust policy since about 1940. To put the definition in its barest and simplest form, an industry is effectively competitive if (1) new firms can freely enter the industry and produce at costs not markedly higher than those of established firms, (2) the firms in the industry are independent and active rivals and do not engage in collusion, (3) the number of firms is large enough so that none is dominant.

Donald S. Watson

EFFECTIVE DEMAND (*Theory of value)

The ability and the willingness to buy various quantities of a goods at various prices.

Albert L. Meyers

Desire for a thing accompanied by ability to pay and willingness to pay.

Allen, Buchanan and Colberg

The quantity of a goods that will be taken by buyers at a given price.

Raymond Bye

Consumer's-plus-investor's demand.

William Fellner

The demand of those persons who are willing to pay the "natural price" i.e., the cost of production and transport,

Or

The quantity of goods that can be bought at the prevailing price.

Knut Wicksell

In economics demand means effective demand.

Compiler

EFFECTIVE INCIDENCE OF TAX (*Public finance)

In order to discover the full economic consequences of tax, we have to draw and compare two pictures—one, of the economic set up (tax distribution of consumer's wants and income, the allocation of factors) as it is with the tax in operation; the other of a similar economic set up but without tax. It is convenient to call the difference between these two pictures, the effective incidence of the tax.

Mrs. Ursula K. Hicks

The term *shifting* in the conventional usage, refers to the process by which the direct money burden is pushed along through price adjustments from the point of impact (where the statutory liability is imposed) to the final "resting" place. The concept of shifting may be rehabilitated by endowing it with somewhat different meaning. Instead of relating it to the process of adjustment, let us relate it to the result. Consider (1) the actual change in distribution that results as a given tax is imposed or tax substitution is made; [and consider (2) the change that would result if the income position of a new tax payer were reduced by the amount of tax addition, or the income position of a former tax-payer were improved by the amount of tax remission, while the positions of all others remained unchanged.] Change (1) may be referred to as *effective incidence.* [Change (2) may be referred to as impact incidence, while the difference between the two may be referred to as the result of shifting].

Mrs. Ursula Hicks in her *Public Finance* (1947) draws a distinction between *effective* and *formal* incidence. Mrs. Hicks's concept of effective incidence is more or less analogous to our use of the term, as it allows for the entire adjustment process.

Richard A. Musgrave

EFFECTIVE MONEY (*Monetary economics)

Money in active circulation.

J. M. Keynes

EFFECTIVE MONEY SUPPLY (*Monetary economics)

The total ready purchasing power in the hands of the public. It consists of currency outside banks and demand deposits, adjusted.

Walter W. Haines

EFFECTIVE QUANTITY OF MONEY (*Monetary economics)

Effective money supply. According to Gottfried Von Haberler, it is a very complicated concept; it is not easily defined in theory and is hopelessly difficult to measure statistically and the difficulty comes principally through factor "*v*" (velocity of circulation of money).

Compiler

EFFECTIVE UTILITY (*Theory of value)

Marginal utility multiplied by the number of units.

Anatol Murad

EFFICIENCY (*Theory of value)

$$\text{Efficiency} = \frac{\text{Actual output}}{\text{Maximum output}}$$

G.J. Siigler

The term efficiency is regarded to have been taken from engineering, particularly mechanical engineering. Nonetheless it was also found in Smith's *The Wealth of Nations* (opening para) (1776) in embryonic form even before its use in engineering and industry.

However, the term in the sense of ratio between input and output, effort and results, expenditure and income, cost and the resulting pleasure, was employed in engineering during the latter half of the 19th century, and in business and economics only since the beginning of the 20th century.

Compiler

EIGHTH FINANCE COMMISSION (INDIA) (*Public finance)

It was appointed by the presidential order on June, 21, 1982 for the period of 5 years under the Chairmanship of Mr. Y.B. Chavan. Professor C.H. Hanumantha Rao is the economist member. The Commission presented its interim report to the Parliament on December 9, 1983.

Compiler

EFFICIENCY OF LABOUR (*Economics of labour)

It is measured by the output per man-hour, i.e., output which a worker produces on average in one hour.

Das and Chatterji

ELASTIC DEMAND (*Theory of value)

When a slight change in price or money income of prices of substitutes causes a considerable change in the quantity demanded, demand for the goods is said to be elastic or more elastic.

Compiler

ELASTICITY (*Theory of value)

It is defined as the proportionate change in the quantity demanded divided by the proportionate change in price. It is the most interesting property of demand.

W. Fellner

The response of quantities bought or sold to changes in prices.

Forster and Leager

In economics, elasticity always means a ratio of the relative changes in two quantities. Alfred Marshall was the first economist to give a clear formulation of price elasticity as the ratio of a relative change in quantity to a relative change in price. Let E stand for elasticity. Then—

$$E = \frac{\text{Relative change in quantity}}{\text{Relative change in price}}$$

Equivalently elasticity is the percentage change in quantity divided by the percentage change in price. If the percentages are known, then the numerical size of E can be calculated. Suppose the percentages are 2 for quantity and 1 for price, and that the price falls, price changes by minus 1 per cent. Then $E = \frac{2\%}{-1\%} = -2$

Donald S. Watson

ELASTICITY OF DEMAND (*Theory of value)

The extent to which the volume of sales expands in response to a small fall in price.

Frederic Benham

A technical term used to describe the degree of responsiveness of the demand for a goods to a change in its price.

$$\text{Elasticity of demand} = \frac{\text{Propertionate change in quantity demanded}}{\text{Proportionate change in price}}$$

$$= \frac{\dfrac{\text{Change in amount demanded}}{\text{Amount demanded}}}{\dfrac{\text{Change in price}}{\text{Price}}}$$

The last equation (change in price divided by price) is of course, the measure of elasticity given by differential calculus where,

P= Price and q=quantity demanded.

Therefore,

$$\text{Elasticity of demand} = \frac{dq}{q} \div \frac{dp}{p}$$

Stonier and Hague

The elasticity of demand is a measure of the relative change in amount purchased in response to a relative change in price, on a given demand curve.

A.L. Meyers

Elasticity of demand (for a commodity) is the rate at which the quantity bought changes as the price changes, other things remaining the same.

In terms of formula,

$$\text{Elasticity of demand} = \frac{\text{Percentage change in quantity bought}}{\text{Percentage change in price}}$$

A. Cairncross

The relationship between small changes in price and consequent changes in the amount demanded.

Briggs and Jordan

Loosely, it is a measure that tells much demand will "stretch" in response to a change in price. More exactly, it is a measure of the responsiveness of quantity bought to changes in price. This is price elasticity of demand.

George Leland Bach

If we denote elasticity of demand by γ, then

$$\gamma = \frac{\text{Relative change in quantity}}{\text{Corresponding relative change in price}}$$

When both of these changes are infinitesimalty small, in symbols.

$$\gamma = \frac{\frac{\Delta 2}{q}}{\frac{\Delta p}{p}} = \frac{\Delta q}{\Delta p} \cdot \frac{p}{q}$$

Where—

q=quantity

p=price

q=infinitesimal change in quantity

p=infinitesimal change in price.

George J. Stigler

The elasticity (or responsiveness) of demand in a market is great or small according as the amount demanded increases much or little for a given fall in price and diminishes much or little for a given rise in price.

Alfred Marshall

The elasticity of demand, at any price or at any output, is the proportional change of amount purchased in response to a small change in price, divided by the proportional change of price.

Mrs. Joan Robinson

Responsiveness of the quantity demanded to changes in price.

K.E. Boulding

The ratio of the percentage increase in a man's consumption to the percentage fall in price by which it is induced, both being assumed small.

Sir Dennis H. Robertson

The doctrine of elasticity of demand is one of professor Marshall's numerous original contributions to economics.

Elasticity of demand usually means price elasticity of demand. However, besides price elasticity of demand, there are other concepts of demand elasticity. They are: (1) Income elasticity of demand, (2) Cross elasticity of demand, and (3) Elasticity of substitution.

(For the meaning of these other concepts, see the relevant entries.)

Dr. F.H. Knight prefers to call "elasticity of demand" "responsiveness of consumption."

Compiler

ELASTICITY OF RECIPROCAL DEMAND (*International economics)

The responsiveness of one country's demand for another country's exports with respect to price or income.

J. M. Keynes

ELASTICITY OF SUBSTITUTION (*Theory of value)

$$\text{Elasticity of substitution } (e_s) = \frac{\text{Relative increase in the ratio between the two goods possessed}}{\text{Relative decrease in marginal significance of one goods to another (in question)}}$$

A.W. Stonier and D.C. Hague

Elasticity of substitution of the factors is the rate at which one factor of production will be substituted for another in response to a change in their relative prices.

Albert L. Meyers

A measure of the case with which one varying factor may be substituted for others.

Briggs and Jordan

The elasticity of substitution referes to the extent to which one commodity can be substituted for another as a result of a change in the relative price. It can be measured by the formula:

$$e_y = \frac{\text{Relative change in the substitution of one commodity for another}}{\text{Change in the relative price of the two goods}}$$

T.N. Sachdev

"Elasticity of substitution" is sometimes called "Technical elasticity of substitution."

Compiler

ELASTICITY OF SUPPLY (*Theory of value)

Elasticity of supply of a commodity is the rate at which the quantity offered for sale changes as the price changes.

$$E_s = \frac{\text{Percentage change in quantity offered}}{\text{Percentage change in price}}$$

A. Cairncross

$$\text{Elasticity of supply} = \frac{\dfrac{\text{Increase in amount supplied}}{\text{Amount supplied}}}{\dfrac{\text{Increase in price}}{\text{Price}}}$$

A.W. Stonier and D.C. Hague

Responsiveness of quantity supplied to changes in price.

K.E. Boulding

ELECTRONIC COMPUTERS (*Industrial economics)

Computers.

Compiler

ELEMENTARY UTILITY (*Theory of value)

A utility that a goods possesses because of the elements present in it (goods).

Forster and Leager

ELIGIBLE BILLS (*Monetary economics)

The bill which is eligible for rediscount at the central bank.

R.S. Sayers

EMBARGO (*International economics)

A Spanish word originally meaning the prohibition of the departure of ships from the ports of a country. The American Embargo Act of

December 22, 1807 used the word in the above sense. Later the term was employed in a broader sense to apply to various prohibitions on illegal trade and shipping. The meaning and scope of the term was further expanded during the World War-I so as to correspond with blockade.

Embargo may be either civil or international. The former applies to the ships of the country levying the embargo and latter to the ships of other countries.

Compiler

The literal meaning of the word is stoppage. It connotes seizure of a ship or ships, either as a matter of precaution or in view or hostilities. It is the most usual form of repriasal and thus constitutes the temporary or permanent sequestration of the property of individuals by the government in times of war or peace. The sequestration by a nation of vessels or goods of its own citizens or subjects for public use is sometimes called a civil embargo in contradistinction to a general prohibition from leaving port intended to affect the trade or naval operations of another nation known as international embargo.

Everyman's Encyclopaedia

Order forbidding ships to enter or leave a port; suspension of commerce with particular foreign country or countries.

K.K. Dewett

EMERGING NATIONS (*Economics of development)

Developing countries.

Compiler

EMERSON SYSTEM (*Economics of labour)

The system which lays down a certain "task" but the task is usually not so severe being designed for the average worker and the bonus is equivalently smaller and is graduated according to the nearness which the worker gets to the task.

Maurice Dobb

A subtype of Task bonus system in which a more reasonable task is set and the payments of bonus vary according to how near the worker approaches the task set.

J.L. Hanson

EMIGRATION (*Demography)

Outflow of population.

F. Benham

The antonmy of immigration.

Compiler

EMPIRICISM (* Economic methodology)

The term derived from Greek word *empeiria*, meaning trial, experience, signifies the conception that experience is the source of Knowledge or all ideas and there is nothing like a *priori* Knowledge.

Empiricism or empirical method is the opposite of deductive reasoning.

The term is taken from philosophy.

Compiler

EMPLOYED LABOUR (*Economics of labour)

That part of the labour force actually employed in response to changing effective demand, given the stock of capital.

Kenneth Kurihara

EMPLOYEE (*Economics of labour)

A general term, meaning any person who works for an employer and in return receives compensation—wages, salary or other items of value.

Richard A. Lester

EMPLOYERS' ASSOCIATION (*Economics of labour)

A group which is composed of or fostered and controlled by employers, and seeks to promote the employer's interests in labour matters.

Encyclopaedia of Social Sciences

EMPLOYMENT EXCHANGE (*Economics of labour)

An office at which work people seeking employment and employers requiring work people may notify their respective needs. It is a market place for labour, intended to replace the unguided individual search for work or for employees.

Encyclopaedia of Social Sciences

The credit of hitting the idea of employment exchange goes to the late Lord William Beveridge of England. On his advice, Britain set up employment exchanges for the first time in 1909.

Compiler

EMPLOYMENT FUNCTION (Keynesian economics)

The term used by Lord Keynes. It is the mathematical relationship between effective demand, as measured in terms of the wage-unit, and the amount of employment.

M.L. Seth

EMPLOYMENT MULTIPLIER (*Keynesian economics)

The ratio of increase in total employment (N) to the increase in primary employment (N_2) in the same way in which the investment

multiplier is the ratio of increase in income to the increase in (primary) investment.

Symbolically:

$$\triangle N = K'. \triangle N_2$$

$$\therefore K' = \frac{\triangle N}{\triangle N_2}$$

Where K'=employment multiplier

$\triangle$=increase.

Dudley Dillard

Kahn's employment multiplier is a coefficient relating an increment of primary employment (e.g., on public works) to the resulting increment of total employment, primary and secondary combined. Thus if primary employment is N_2, total employment N, and K' the multiplier, then $K' N_2 = N$.

(Keynes's investment multiplier, however, is the co-efficient relating an increment of investment to an increment of income. If Y is income and I is investment while K is the multiplier, then $KI = Y$.

Alvin H. Hansen

The concept of employment multiplier was developed by R.F. Khan in "The Relation of Home Investment to Unemployment", *Economic Journal*, June 1831.

Kahn's concept is the mother of all other multiplier concepts, including Keynes's investment multiplier,

Compiler

EMPLOYMENT THEORY (*Economic methodology)

An alternative name for macro-economic analysis.

F.S. Brooman

EMPTY ECONOMIC BOXES (*Economics)

A derogatory epithet for economic laws since they are allegedly found to be half truths and inapplicable in certain instances.

Compiler

ENDOGENEOUS THEORIES OF BUSINESS CYCLES (*Business cycles)

Business cycle theories can be divided into two classes: (i) Exogeneous Theories and (ii) Endogeneous Theories (Theories which ascribe cyclical movements to forces lying outside the economic system are called Exogeneous Theories. Example—the Sun-spot theory). Theory which try to exlpain business cycles from some force operating within the economic system are called Endogeneous theories. Example—Monetary theories.

J.K. Mitra

Theories which explain the trade cycles relying exclusively on economic movements or disturbances.

Compiler

ENDS (*Theory of value)

Human wants. The term was given currency by Lord Robbins in his definition of economics.

Compiler

ENGEL, ERNST (1821-96) (*History of economic thought)

German statistician. Engel, Director of the Prussian Bureau (*Amt*) of Statistics was primarily an administrator and as such highly successful. In 1857 he published his famous law of consumption, now named after him as Engel's Law.

His best work is *Der Wert des Menschen* (1883).

J.A. Schumpeter

ENGEL LINE (*Theory of value)

Income consumption curve (ICC). It shows the effect on the consumer's behaviour as a result of changes in consumer's money income, other things remaining unaltered.

Compiler

ENGEL'S LAW OF CONSUMPTION (*Theory of value)

A famous law propounded by Ernst Engel (1821-96), Director of the Prussian Bureau of Statistics. Though published originally in 1857, it did not attract international attention before the period, 1870-1914. Even then neither Engel himself nor anyone else seems to have realized its interest for economic *theory*.

It states that (in a set of families in which tastes do not differ significantly and in which all of them face the same prices) percentage expenditure on food is on the average a decreasing function of income.

(Such another statistical law is Pareto's law of the distribution of incomes by size).

Joseph A. Schumpeter

Around 1857 the Prussian statistician, Ernst Engel pioneered a study of family expenditures limited to families enjoying annual incomes of $ 300 to $ 1,000. He reached the following conclusions which have since come to be known as Engel's Law:

1. As income increases, the smaller is the relative percentage of the total outlay spent for food.
2. The relative percentage of the total outlay spent for clothing remains the same regardless of the income;

3. The relative percentage of the total outlay spent for rent, fuel and light remains about the same regardless of the size of the income;
4. As income increases, the relative percentage of the total outlay accounted for sundries, increases. Sundries include expenditure for education, health, recreation, other luxuries and savings.

Fairchild, Buck and Slesinger

ENGELS, FRIEDRICH (1820-95) (*History of economic thought)

Friend and faithful ally of Karl Marx. Engels interspersed a fairly successful business career with revolutionary activities until 1869, when he retired from business in order to serve the cause of Marxist socialism for the rest of his life. Among other things, he became the warden of Marx's literary remains after the latter's death and, in addition, something of an oracle and elder statesman, to the German Social Democratic Party. Throughout he aspired only to be the faithful henchman and mouthpiece of the Lord Marx. He was not Marx's intellectual equal—while fairly up to Marx's philosophy and sociology, he was deficient in technical economics.

His economic publication *Die Lage der arbeitenden Klasse in England* (1845) is a creditable piece of factual research, nourished by direct observation. His name is fully entitled to the honorific position in the history of German socialism. He was Marx's slave.

Joseph A. Schumpeter

A socialist, a revolutionary and the close companion, collaborator and financier of Karl Marx.

Born in Barmen, Germany, he was the son of a wealthy cotton-spinner. Early in his life, he broke completely with his religious (protestant) traditions. In 1842 he left Germany for Manchester where he acquired a knowledge of *laissez-faire*. In 1844 he met Karl Marx in France to remain a life-long ally of the latter.

His first work *Schelling Und die Offenbarung* was published while he was just 22. At the age of 25, he gained fame in Europe through the publication of *Die Lage der arbeitenden Klasse in England* (1845) which reflected the influence of chartist movement on him. He spent the years between 1845 and 1950 in France, Belgium and Germany, organising the underground revolutionary groups and collaborating with Marx in literary activities. He published in co-authorship with Marx, *Die heilige Familie oder Kritik der Kritischen* (*1845*) and *Manifesto der Kommunistischen partei,* the revoluntionary *Communist Manifesto* (1848). He retired from business in 1869 and devoted himself entirely to literary work and revolutionary activities. In his polemically important work *Herrn Eugen Duhrings Umwalzung der Wissenschaft* (*1878*) he presented a Marxist synthesis of dilectical method of German classical philosophy shorn of its idealism. After the death of Marx, he edited the second and third volumes of *Das Kapital* from the rough notes and drafts left by Marx.

Engel shares with Marx the distinction of having founded scientific socialism.

Compiler

ENGINEERING (*Industrial economics)

An inclusive term embracing the discovery through research of laws and formulation of principles and methods of utilizing them through the design, construction, maintenance, and operation of mechanical and other devices.

Encyclopaedia of Social Sciences

ENTERPRISE (*Theory of value)

Also called, it is one of the factors of production. It consists in co-ordinating the three other productive factors, *viz.* land, labour and capital, assigning work to each factor, and assuming the risks and uncertainties of production and marketing.

This factor was added by Marshall to the above mentioned three traditional foctors.

Compiler

In the Keynesian sense the term adverts to the attempt to forecast the yield of assets over their entire life.

Dudley Dillard

ENTERPRISE SYSTEM (*Industrial economics)

A system in which the owners of productive resources (labourers, capitalists and landowners) sell their services or the services of their resources to entrepreneurs (usually organised on a corporate basis) for money and then spend the money to buy the products of the entrepreneurs.

George J. Stigler

ENTREPOT (*International economics)

A commercial centre where commodities are brought for distribution. It is a market or place where goods are deposited, import-duty free, for the purpose of reexportation. London, Liverpool and Hull are the entrepots in England.

Compiler

ENTREPRENEUR (*Theory of value/Industrial economics)

The controlling interest of a firm.

Mrs. Joan Robinson

One who performs the function of organisation, planning and risk-bearing.

Fairchild, Buck and Slesinger

In economic theory, the entrepreneur is often regarded as the risk-taker as well as decision-maker. In the case of joint-stock companies,

these functions tend to be assumed separately by ordinary shareholders and the management respectively.

Beacham

Human calculating machine. Co-ordinator of factors of production.

Not a pleasant word, but compared with the alternative words, "undertaker" and "enterpriser", it seems the most desirable one.

A.W. Stonier and D.C. Hague

A French word. It is extensively used in Economics to refer to the person who performs the tasks of co-ordinating the agents of production and managing the business unit, and undertaking uncertainty. Frederic Benham remarks that since the English equivalents such as "enterpriser" and "undertaker" are highly unsuitable, the term "entrepreneur" is retained.

The term "entrepreneur" was first introduced in economics by Richard Cantillon in his *Essai Sur la nature du Commerce* (1755) to designate those dealers who buy the wares of the country, give for them a fixed price to sell them again—wholesale and retail—at an uncertain price.

The unique feature of an entrepreneur is to bear uncertainty, i.e., unpredictable and non-insurable risk. The distinction between "entrepreneur" and "capitalist" albeit common in French economic literature, was absent in English economic writings down to the times of John Stuart Mill. It was F.A. Walker (U.S.A.) who drew clear distinction between "entrepreneur" and "capitalist" (passive investor) and showed that the remuneration received by the capitalist was called interest and that received by the entrepreneur, profit.

J.B. Clark and Alfred Marshall are the foremost among the recent economists who laid great stress on the distinction between the terms, capitalist and entrepreneur.

Compiler

ENTREPRENEURIAL PROFITS (*Theory of value)

The difference between receipts and outlay in business.

J.A. Schumpeter

ENVELOPE (*Theory of value)

Also called "planning curve of a firm", it is the long-run cost curve which is tangent to all the short-run cost curves. Since it envelops all the short-run cost curves, it is called envelope. It is U-Shaped, but its bend is flatter whilst the bend of the short-run cost curve is pronounced.

Compiler

EQUAL MILEAGE RATE PRINCIPLE (*Economics or transport)

One of the various principles of determination of railway rates and fares. [The others are (i) cost of service principle, (ii) principle of

differential charging, (iii) telescopic rate principle, and (iv) principle of zonal charging).

It is also called flat rate principle. According to it, rate or fare depends upon the mileage travelled. In case of passenger traffic it is quoted per mile; and in the case of goods traffic, per maund per mile or per tonne per mile.

S.K. Srivastava

EQUAL PAY (*Economics of labour)

The principle of paying at the same rate for a given work irrespective of the worker's nationality, colour or sex.

Compiler

EQUAL PRODUCT CURVE (*Theory of value)

A curve showing the same amount of product obtainable by the employment of different quantities of two factors, say X and Y.

M.L. Seth

Equal product curve is also called iso-quant or iso-product curve.

Compiler

EQUALISATION FUND (*International economics)

Exchange Equalisation Fund.

(See the above entry).

Compiler

EQUATION OF EXCHANGE (*Monetary economics)

PT=MV. It means the value of goods sold is equal to money spent for them.

Walter W. Haines

It states, "a flow of money exchanges against a flow of goods and the money spent must equal the value of goods and the money spent must equal the value of goods bought."

Frederic Benham

(There are two alternative methods of expressing the quantity theory of money. On the one hand, the theory can be presented as an identity; that is, as a statement of a situation which is necessarily true, because of the way in which the terms used in it are defined. An identity is a statement of the same facts in two different ways. The other method of presenting the quantity theory is in the form of an equation. This form expresses causal relationship.)

The forms in which the quantity theory was developed in the early part of the 20th century can be expressed either as the identity; $\equiv$ MVPT or as the equation MV=PT. (This is the Fisher equation).

Where the symbols:

T=the number of transactions in a year;

P=the average price of transactions;

M=the total quantity of money in existence; and

V=average velocity of circulation of money.

A.C.L. Day

The relationship between the quantity of money (M), its velocity of circulation (V), the trade volume (T), and the general price level (P), can be expressed by the equation MV=TP or MV/T. This is the famous "Fisher" quantity equation. Irving Fisher gave it in *Purchasing Power of Money* (1911).

The above formula is only a simple way of expressing the truism that the average level of prices depends on the quantity of money and its velocity of circulation in relation to the total amount of sale transactions.

George N. Halm

Of all theories purporting to explain the determination of the value of money at any one time and the variations of this value over periods of time, the so-called quantity theory in its various forms is the oldest and has been the most influential. Crude statements of it are found at least as far back as Roman writings. As the quantity theory developed, it assumed two general forms. The first is referred to as "the transactions approach" and the second is called "the cash-balance approach."

The quantity theorists frequently employ an equation of exchange, which is stated as MV=PT, or sometimes as $\frac{MV}{T}=P$. In this equation M is the average quantity of money of all kinds in circulation in a given area during a specified period of time. V or velocity, is the average number of times each unit of M is spent for goods, services and securities during some specified period. The product MV is, therefore, the total of money expenditures for all goods, services and securities during the period; it is the aggregate money demand for these things. T is the physical volume of things for which money is spent during the period-the physical volume of trade in goods, services, and securities effected with money during the period. P is the average price per unit of T.

It is immediately obvious that the equation of exchange is a truism; the aggregate value of the money given in exchange for goods, services, and securities (MV) is equal to the money value of the goods, services, and securities given in exchange for the money (PT).

Lester V. Chandler

The equation of exchange (also called the Fisher equation after the most eminent of those modern economists who used it as a starting point

of the theory of money) is now usually written: MV=PT, where M means quantity of money, V velocity, P price level, and T physical volume of transactions.

In itself there is nothing new about what has come to be called the Fisher or Newcomb-Fisher equation. It simply links the price level (P) with—(1) the quantity of money in circulation (M); (2) its 'efficiency' or velocity (V); and (3) the (Physical) volume of trade (T). Let us express this by witting $P=f\ (M, V, T)$. To this functional relation the Fisher equation imparts the particular form: $P=f\ (M,V,T,)=\frac{MV}{T}$ or MV=PT. Again this equation is not an identity but an equilibrium condition. For Fisher did not say that MV is the same thing as PT or that MV is equal to PT by definition: given values of M, V, T, tend to bring about a determined value of P, but they do not simply *spell* a certain P.

(Two other important formulae are:

(1) Cambridge equation that embodies the so-called cash-balance approach and

(2) the income approach.)

Joseph A. Schumpeter

There are three important versions of the quantity theory of money which purports to investigate into causes of changes in the value of money. They are: (i) cash-transactions version; (ii) cash balance version, and (iii) income version.

Irving Fisher (U.S.A), with whose name is associated the cash transactions approach, expressed the quantity theory algebraically as $MV=PT$ or $P=\frac{MV}{T}$ or $P=\frac{MV+M'V'}{T}$

The above equation, he called equation of Exchange. This equation, though attacked right from its inception is not only surviving, but also thriving.

In the above celebtated equation, M' referes to the quantity of bank money and V' represents the velocity of circulation of bank money.

Compiler

EQUILIBRIUM (*Theory of value)

The word comes from two Latin words meaning an equal balance. Anything is in equilibrium when the forces acting on it are such that it has no tendency to change its conditions.

Kenneth E. Boulding

The position from which there is no net tendency to move.

G.J. Stigler

Equilibrium in economics denotes absence of change in movement while in the physical sciences it denotes absence of movement itself.

J.K. Mehta

A situation in which everybody is satisfied to keep on doing what he is doing.

G.L. Bach

The concept of equilibrium has been derived from the Latin words *acquus* meaning equal and *libra* meaning balance. Thus, the term equilibrium means equal balance.

Equilibrium is a position of rest. It is a state of balance in such a way that the opposing forces or tendencies mutually just cancel the effects of each other so that the object on which these forces exert their pressure is not subject to any disturbance.

There are different types of equilibrium: (1) stable; (ii) unstable; (iii) neutral; (iv) short-period; (v) long-period; (vi) unique (or single); (vii) multiple; (viii) dependent; (ix) independent; (x) static; (xi) dynamic; (xii) particular (or partial), and (xiii) general.

The whole structure of price theory and the technique of resource allocation are based on equilibrium analysis.

M.C. Vaish

The concept of economic equilibrium is so important and plays so prominent a part in economic theory that some economists such as G.J. Stigler prefer to call Economics Equilibrium Analysis.

The term "equilibrium" implies a state of balance or rest. It refers to that condition of the economic system in which all forces for change are equally balanced so that the net tendency to change is zero.

Following are some of the uses of the concept of equilibrium:

(i) Equilibrium price, (ii) consumer equilibrium, (iii) equilibrium of a firm, (iv) equilibrium of an industry, (v) equilibrium wage.

M.L. Seth

Equilibrium has the general meaning of a balance of opposing forces. There are many equilibrium concepts, e.g. Equilibrium of the consumer, equilibrium of the firm, equilibrium of the industry etc.

Compiler

EQUILIBRIUM AMOUNT (*Theory of value)

When the demand and supply are in equilibrium, the amount of the commodity which is being produced in a unit of time may be called the equilibrium amount.

Alfred Marshall

EQUILIBRIUM ANALYSIS (*Economic methodology)

The concept of equilibrium plays such an important place in the economic analysis that economics is called by some economists like Nobel laureate George J. Stigler, "equilibrium analysis."

Equilibrium analysis is generally divided into two groups: (i) partial equilibrium analysis and, (ii) general equilibrium analysis.

Adam Smith was the first to evolve equilibrium analysis.

Compiler

EQUILIBRIUM IN BALANCE OF PAYMENTS (*International economics)

A nation's balance of payments is in equilibrium when its normal demand for foreign exchange is equal to its normal supply of foreign exchange.

Havens, Henderson and Crammer

EQUILIBRIUM OF THE CONSUMER (*Theory of value)

The equilibrium of the consumer is the first of many equilibrium in the theory of relative prices.

The consumer is in equilibrium when he buys the quantity whose marginal utility is equal to the marginal utility of the dollars represented by the price. The shorthand statement of consumer equilibrium is: Marginal utility equals price. Equilibrium means that the consumer does not want to buy any other quantity.

A logically complete statement of the equilibrium of the consumer must repeat that marginal utility is diminishing. If $MV=P$, with MV increasing, there is no equilibrium, because the consumer would want to buy more.

In terms of indifference curve analysis, a consumer is in equilibrium when he buys those amounts of two commodities that make him most satisfied according to his own notions of being well off.

Donald S. Watson

A state where the consumer with a given amount of income secures the maximum possible satisfaction by spending on the commodities whose prices are given in the market.

T. N. Sachdeva

EQUILIBRIUM OF THE FIRM (*Theory of value)

When a firm is producing the output at which marginal costs equal marginal revenue, it is in a position of equilibrium. That means there is no incentive to expand or contract the output.

Briggs and Jordan

A firm is in equilibrium when there is no opportunity to act so as to increase its profits and no incentive to set so as to lower them.

Kenneth E. Boulding

A firm will be in equilibrium when marginal revenue equals marginal cost, for it will then be earning maximum profits.

A. W. Stonier and D. C. Hague

A firm is said to be in equilibrium when it has no motive to change its organisation or scale of production, and this state would be possible only when it is earning maximum net money profits.

If a firm is to be in equilibrium two conditions must be fulfilled: (i) MC=MR (ii) MC curve must cut its MR curve from below.

M. L. Seth

EQUILIBRIUM OF THE INDUSTRY (*Theory of value)

An industry as a whole and all the individual firms in it will be in equilibrium—in "full equilibrium" as it is often called—when all firms are maximizing profits and when there is no tendency for firms to enter or leave the industry. In such conditions, all firms will be earning at least normal (if not supernormal) profits.

A. W. Stonier and D. C. Hague

EQUILIBRIUM PRICE (*Theory of value)

The only price that can last. The price at which the amount supplied and the amount demanded are equal.

Paul A. Samuelson

The price at which the quantity of the commodity that the sellers wish to sell is just equal to the quantity that the buyers wish to buy. It is the price which "clears the market".

Kenneth E. Boulding

The price that equals quantity supplied and quantity demanded ; if the law of demand and the law of supply prevail price will tend towards equilibrium.

Haven, Henderson and Crammer

It is not a real price in a real market.

The price which would tend to be established in a particular market during a given time period provided that everything affecting the supply and demand schedules remain unchanged.

Allen, Buchanan and Colberg

EQUILIBRIUM RATE OF EXCHANGE (*International economics)

The rate at which the demand for each currency, would be equal to the supply of it, ignoring speculative and abnormal capital movements.

Geoffrey Crowther

The rate which, over a certain period of time, keeps the balance of payments in equilibrium without any net change in the international currency reserve.

Ragnar Nurkse

The rate which maintains the balance of payments equilibrium without a degree of unemployment greater than in the outside world.

Ragnar Nurkse

EQUILIBRIUM RATE OF INTEREST (*Theory of value)

The rate of interest which keeps the effective quantity of money (MV) constant.

Gottfried Haberler

EQUI-MARGINAL PRINCIPLE (*Theory of value)

The law of equi-marginal utility.

Compiler

EQUIPMENT (*Industrial economics)

Investment goods.

Raymond Bye

EQUIPMENT-OUTPUT RATIO (*Economics of development)

Capital income ratio or capital-output ratio.

The ratio between the value of all the equipment in the economy and a year's product.

Raymond Bye

(See also "capital-output ratio"—Compiler).

EQUITY (*Industrial/Monetary economics)

Security which does not yield a fixed and known amount of interest each year is known as equity. Ex-ordinary share of business.

A.W. Stonier and D.C. Hague

Equities or equity shares are the ordinary shares in public limited liability companies. The equity share gives a right to a claim on profits after all prior claimants (creditors of the company-banks, people who hold bonds or debentures, preference share-holders etc), have been satisfied.

A.C.L. Day

The term "equity" adverts to an ordinary share of a joint-stock company. The equity of a company is the value of the net assets as represented by the ordinary shares.

In public finance the term equity implies justice and thus equitable means just or fair.

Compiler

ERROR (*Statistics)

In ordinary language, error means mistake. But in statistics, the term mistake implies a wrong calculation or use of inappropriate method in the collection or analysis of data. The term "error" means "the difference between the true value and the estimated value".

Statistical errors arise due to a large number of factors. They may be due to inappropriate definitions of statistical units, bias of the investigator or the inherent instability of the collected data. Such errors are called *Errors of Origin*. Errors may also arise on account of manipulation in counting, measurement, description or approximation. Such errors are known as *Errors of manipulation*. Errors may also arise on account of inadequacy of the size of the same and all such errors are called, *Errors of inadequacy.*

Statistical errors can be measured either—(a) absolutely or (b) relatively.

If the error is measured absolutely it is called an absolute error and it is measured relatively, it is called relative error. *Absolute error* is the difference between the true value and the estimate while *relative error* is the ratio of the absolute error to the estimate.

Absolute and relative errors can be either positive or negative. If the true value exceeds the estimate, the error is said to be positive and on the other hand if the estimate exceeds the true value, the error is called negative.

Broadly speaking, errors may be—(a) biased or (b) unbiased. Biased errors are those which arise on account of some bias in the minds of the investigator or the information or in the instruments of measurement. Unbiased errors are those which arise just on account of chance.

D.N. Elhance

ESCHEAT (*Agricultural economics/Economics of public finance)

In agricultural economics, the term is used to describe the process by which the state takes over title to land that is no longer owned by private parties.

Max M. Tharp

In public finance, the term implies the claim of the state to the property of persons who die without legal heir.

Philip E. Taylor

In English Common law, under the feudal system of land tenure, the term was applied to the right of the lord to the lands of his tenant who died intestate and without lawful heirs. The same meaning holds true today.

The literal meaning of escheat is to fall or happen.

Compiler

ESTATE DUTY (*Economics of public finance)

The death duty levied on the total passing property of the deceased.

Das and Chatterji

Death duteis are of two kinds: (1) An *estate tax* imposed upon the privilege of transmitting property at death; this is a levy upon the entire capital value of all property changing hands at death, fixed mainly by reference to the total value of that property. (2) An *inheritance tax* imposed upon the privilege of receiving property from a descendent at death; this is a levey upon the benefits accruing at death to each beneficiary calculated by reference to the amount of each benefit and the relationship (if any) of the beneficiary to the deceased.

Estate taxes are usually easier to administer than inheritance taxes.

The estate duty based upon the Finance Act of 1894 is the only death tax in force in Great Britain. The inheritance taxes which were there from 1794 were abolished in 1949.

In the U.S. the federal estate tax was adopted in 1916.

Encyclopaedia Britannica

Death duty in the form of estate duty was imposed in India with effect from October 15, 1953. Prof. Nicholos Kaldor in his *Report on Indian Tax Reform* recommended the replacement of the estate duties by a general gift tax.

Compiler

ETHICS (*Economics)

The term is derived from Greek *ethos*, "character". It is the systamatic study of the nature of value concepts, "good", "bad", "ought", "right", "wrong", etc., and of the general principles which justify us in applying them to anything; also called "moral philosophy".

Encyclopaedia Britannica

EULER, LEONHARD (1707-83), (*History of economic thought)

Swiss mathematician. Born at Basel, Euler studied under Bernoulli. He became professor of physics in St. Petersburg in 1730 and professor of mathematics in 1733. In his later age, he became totally blind and his dictations were written by his servant. His *Introduction of Algebra* was written while he was blind (This reminds of John Milton).

Euler is important to economics for his famous "Euler's theorem".

His chief works are:

(1) *Introduction to Analysis of Infinities* (1748),

(2) *Institution of Differential and Integral Calculus* (1855).

(3) *Theory of Planetary Motion* (1765),

Besides his contribution to pure mathematics, he wrote on applied mathematics and science.

He is famous for what is called Eulerian number.

Compiler

EULER'S THEOREM (*Theory of value)

A proposition known as Euler's theorem, after Leonhard Euler (1706-1783) the swiss mathematician, states that:

$$\text{Total Product} = L \times MPPL + C \times MPPc.$$

that is, total product (of a firm or an industry, or the entire economy) equals the quantity of labour, L multiplied by the marginal physical product of labour, MPPL, plus the quantity of capital C, multiplied by its marginal physical product.

Euler's theorem is valid in the equilibrium of pure competition, and when the production function is linear and homogeneous, when returns to scale are constant. The proof of Euler's theorem is a simple matter of the differential calculus.

Donald S. Watson

According to this theorem, if a production function involves constant returns to scale, the sum of the marginal products will be equal to the total product. This theorem has played a significant role in the development of the marginal productivity theory of distribution.

M.L. Seth

Euler's theorem states that if $f(x, y, \ldots . z)$ is a homogeneous function of the mth degree, it has the property that

$$x\left(\frac{\partial f}{\partial x}\right)+y\left(\frac{\partial f}{\partial y}\right)+\ldots\ldots\ldots\ldots z\left(\frac{\partial f}{\partial z}\right)=mf$$

A function is homogeneous if all its terms are of the same dimension, that is, if the sums of the exponents of the variables in all its separate terms are equal; it is homogeneous of the first degree if these sums are equal to unity.

Mark Blaug

Euler's theorem on homogeneous functions is the august name attached to a property of constant returns. The theorem is a simple one; it says that if there is constant returns to scale, then the total product is equal to the sum of the marginal products of the various inputs, each multiplied by the quantity of its input.

The theorem has been in the mathematical books for two hundred years.

Euler's theorem entered economics in order to solve the problem whether, if each productive factor is paid at the rate of its marginal productivity, the total product would be sufficient and only sufficient.

George J. Stigler

The proposition that when the production function is homogeneous of the first degree and each factor is paid a reward equal to its marginal product, the whole product is just exhausted, is known as Euler's Theorem on homogeneous functions of whatever degree. This is often quoted as

$$A.\frac{\partial p}{\partial A}+B.\frac{\partial p}{\partial B}=np$$

This formula gives the result for a homogeneous function of the nth degree. By a homogeneous function of the nth degree we mean a function such that f (λA, λB) is equal to $\lambda^{n}f$ (A, B).

A.W. Stonier and D.C. Hague

Euler's theorem tells us that if a production function involves constant returns to scale, the sum of the marginal products will actually add up to the total product.

William J. Baumol

As soon as the marginal productivity theory of distribution was propounded, a perplexing problem arose: if all the productive factors were paid equal to their marginal products, would the total product be just exactly exhausted without any surplus or deficit left ? (This problem is referred to as Adding up problem).

Philip H. Wicksteed was one of the first economists to pose the above problem and offer a solution. In his brilliant *Essay on the Co-ordination of the Laws of Distribution* (1984) by applying Euler's theorem, he tried albeit unsuccessfully, to prove that the total product would be precisely exhausted when each factor was rewarded its marginal product. In a review of Wicksteed's book in the *Economic Journal* (Vol. IV, 1894), A. W. Flux gave an elementary but elegant proof of Wicksteed's contention. According to William J. Baumol, it was Flux who in his review of Wicksteed explicitly injected Euler's theorem, into the discussion.

Wicksteed's solution was attacked by Walras, Barone, Edgeworth and Pareto. After the attack, each of these critics independently put forward more satisfactory solution to the Adding up problem.

(Wicksteed by assuming constant returns to scale and homogeneous production function of the first degree and applying Euler's theorem had resolved the adding-up problem, that is, if all factors are rewarded equal to their marginal products, the total product will be just exactly exhausted with neither surplus nor deficit).

These critics asserted that production function was not homogeneous of the first degree and that returns to scale were not constant in the real world.

Compiler

EURO-CURRENCIES (*International economics)

The deposits in terms of foreign currency lent and borrowed in a market other than that of the currency concerned.

Paul Einzig

EURO-DOLLARS (*International economics)

Dollars deposited and redeposited in Europe.

M.A.G. Van Meerhaeghe

Time deposits in terms of dollars lent and borrowed in financial centres outside the U. S.

Paul Einzig

Dollar balances held by private individuals with commercial banks of Europe. Dollars accumulated out of the large U. S. net lending and spending. They include a fund of international currency in addition to officially recorded gold and foreign currency reserves of European central banks or official agencies.

Euro-dollar arrived on the international financial scene in 1958-59.

Compiler

EURO-DOLLAR MARKET (*International economics)

The expression euro-dollar is misleading since the market is not confined to Europe and does not trade only in dollars. Sterling deposited in Paris is also traded in the euro-dollar market, and the Americans borrow euro-dollars outside the U.S. as well as inside it. It is created by international bankers.

Having grown from virtually noting, it is now one of the world's largest markets for short-term funds—mostly dollars. It is an international market. It is one of the freest, most competitive and most flexible capital markets that exist anywhere.

It is a market, located principally in Europe, for lending (at low rate of interest) and borrowing (at a high rate of interest) the world's most important convertible currencies like the dollar in the main, the pound sterling, the swiss franc, the Deutsche mark, the Netherlands guilder, and the French franc. The professional participants in it are merchant banks, private banks and some investment banking firms.

Funds flow into the market from 40 or 50 countries all over the world. The funds are owned by official monetary institutions, other government agencies, banks, industrial and commercial enterprises and private individuals. European cities are the principal intermediaries or dealers in the Euro-dollar market.

The euro-dollar market attracts funds because it offers higher rates of interest, greater flexibility of maturities and a wide range of investment qualities than other short-term capital markets; it attracts borrowers because it lends funds at relatively low rates of interest. It is thus an intermediary between the owners of funds and the prospective buyers. It operates at low costs. Transactions take place outside the country where that currency originates. Thus the market for euro-dollar refers to the market in dollars outside the U.S. A substantial amount of international trade is financed by Euro-dollars.

The market has grown up and continues to grow without official favours, subsidies, or tax advantages. It is so broad, so international and so comparative that it so cannot be controlled or even influenced by any one country.

Finance and Development—The Fund and Bank Review

EUROPEAN ATOMIC ENERGY COMMUNITY (EUROTOM)
(*International economics)

It was established concurrently with the EEC (European Economic Community) Countries (the original six) under the 1957 Treaty of Rome. Its objective is to enable the members of the EEC to pool their resources in the development of atomic energy for peaceful purposes.

Compiler

EUROPEAN COAL AND STEEL COMMUNITY (ECSC) (*International economics)

The idea of closer Franco-German co-operation in the coal and steel sectors was advanced as long ago as the 1920s. Subsequently various schemes were even evolved for creating a common interest in French and German basic industries; these took concrete shape after the Second World War, and ultimately resulted in the establishment of the European Coal and Steel Community.

On 9 May 1950, the French Foreign Minister, Schuman proposed on behalf of his government that French and German production of coal and steel be placed under a common 'higher authority' within an organisation also to include other European countries. (The idea emanated in the first instance from J. Monnet, then Commissioner-General of the French Economic Plan). This Schuman plan was designed as a step towards European political integration.

The proposal communicated in the French Note of 25 May, 1950, found favourable reactions. Britain held aloof. Negotiations opened on 20 June 1950 on the draft of an agreement to run for 50 years which was laid before the respective governments early in December. The Treaty was signed on 18 April, 1951. Ratification by the six countries—France, West Germany, Belgium, the Netherlands, Luxembourg and Italy—followed between 31 October, 1951 and 16 June 1952. On 23 June 1952 ECSC finally came into existence.

The purpose of the ECSC is "to coutribute to the expansion of the economy, the development of employment and the improvement of the standard of living in the participating countries . . . The community must progressively establish conditions which will in themselves assure the most rational distribution of production . . . while . . . avoiding the creation of fundamental and persistent disturbances in the economies of the member states" (Article 2).

The day-to-day administration of the ECSC is carried on by the Executive or High Authority (assisted by a Consultative Commitee) which has its headquarters in Luxembourg.

In February, 1962 Britain applied for membership of ECSC, but the negotiations were broken off on 30 January, 1963. Denmark and Ireland similarly applied on 16 March 1962 and 7 February, 1963 respectively.

M.A.G. Van Meerhaeghe

The ECSC gave birth to EEC—the *European Economic Community*—in the sense, the Six ECSC countries formed themselves into European Common Market (ECM) in 1958.

In 1971 Britain applied for full membership of the ECSC.

Compiler

EUROPEAN COMMON MARKET (ECM) (*International economics)

Another name for European Economic Community (EEC). (See the entry).

Compiler

EUROPEAN DEFENCE COMMUNITY (EDC) (*International economics)

After setting up of Coal and Steel High Authority (CSHA) in 1952, the Six ECSC countries made an attempt to establish European Defence Community, the objective of which was the integration of the military forces (of the above six members). Since the French National Assembly could not ratify the scheme in the face of the vigorous anti-campaign of the powerful French communist party, the proposal collapsed. Undaunted, the Six countries started thinking about the creation of the European Economic Community (EEC) and got success in it.

Compiler

EUROPEAN ECONOMIC COMMUNITY (EEC) (*International economics)

Since France proved unwilling to subject other sectors of the economy to supranational control, the ECSC countries (France, W. Germany, Italy, Luxembourg, Belgium and the Netherlands) looked for less radical means of furthering economic integration. This is how the European Economic Community came into being.

The EEC Treaty was signed on 25 March 1957; it was concluded for an unlimited period.

The EEC Treaty was ratified by the member states—Belgium, France, Italy, Luxembourg, the Netherlands and West Germany—in the course of 1957 and came into force on 1 January, 1958.

Any European state may apply for membership of the community. However, Britain's application was not considered. Denmark, Norway and Ireland were among the other countries which asked to join the community.

Brussels was provisionally chosen as the headquarters of the Commission.

The EEC Treaty was concluded to promote the harmonious development of economic activity within the community, continued and balanced expansion, greater stability, a steady improvement in living standards and closer relations between the member states. The means of achieving these aims are the creation of a common market, the gradual alignment of economic policies etc.

M.A.G. Van Meerhaeghe

The Treaty of Rome signed by Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany on March, 25, 1957 gave birth to the European Economic Community or the European Common Market as called in Great Britain. The Community started functioning on January 1, 1958.

The Treaty which covers 248 Articles aims at the gradual elimination of tariff barriers among the six countries and the imposition of a common tariff on imports from any outside country. An objective mentioned in the preamble is that the contracting parties are "determined to establish the foundations of an ever closer union among the European peoples; decided to ensure the economic and social progress of their countries by common action in eliminating the barriers which divide Europe . . . resolve to strengthen the safeguards of peace and liberty by establishing this combination of resources and calling upon other peoples of Europe who spare their ideal to join in their efforts".

The original EEC (of six countries) has an area of 4,49,000 square miles and a population of 170 millions.

The community is not merely a customs union. It is a virtual federation of states in the economic sphere with supranational institutions.

The Community has three executives: (i) The Coal and Steel High Authority set up in 1952, (ii) Common Market Commission established in 1958, and (iii) Eurotom instituted in 1958. Of these three, Common Market Commission is "A motor, a watch-dog and a kind of honest broker".

Britain did not immediately join the Commission but instead joined the Scandinavian countries, Austria, Portugal and Switzerland to form European Free Trade Area (EFTA). Soon, Britain started experiencing threat to its economy from the growing power of the Community, besides her declining significance in world polititics. Hence towards the end of

July, 1961 Britain announced her intention of seeking membership of the EEC. It applied on August 9, 1961. The late president Charles de Gaulle's 'no' to Britain's entry into the Community resulted in the ultimate collapse of Brussel's talks on January 29, 1963. de Gaulle considered Britain as the American Trojan horse in the EEC. Front ranking economists like Sir Roy F. Harrod, James Meade and Mac Dougall did not see any gain for Britain were she to join the ECM. India worried since U. K's entry would result in the disappearance of preferential market for India in Great Britain.

However, the U.K. resumed negotiations with the EEC in 1970 and by late 1971, agreeement had been reached. On January, 1, 1972, England, Denmark and the Republic of Ireland became full members of the EEC, taking the total membership to nine. There are many associate members of the Community. It is headquartered at Brussels.

Compiler

EUROPEAN FREE TRADE ASSOCIATION (EFTA) (*International economics)

While the negotiations for the establishment of the EEC were in progress, it was proposed in some quarters, notably the U.K. that a free-trade area should be set up among the OEEC (Organisation for European Economic Co-operation) countries, with the EEC as such forming part of it. The non-EEC countries were apprehensive of the discrimination which was bound to result from the development of the EEC.

The EEC countries were of the opinion that attention needed to be focussed not only on customs duties and quantitative restrictions but on all other measures causing restraint of trade.

France stated that it could not concur in the idea of a free trade area whose sole aim was the abolition of customs duties and quotas. The OEEC discussions came to naught.

Since a large free trade area proved impossible, it was decided by the seven non-EEC countries to establish a 'little' free trade area. The countries in question were the U.K. (which had not joined the EEC on account of a fundamental aversion to any form of supranationality and stubbornly adhered to Imperial preference), Austria, Sweden and Switzerland (which either could not or would not depart from their policy of neutrality) Denmark, Norway and Portugal (much of whose trade is with the U.K).

For Greece, Turkey and Republic of Ireland, the project had no appeal.

As early as 21 July, 1959 a ministerial conference of the 'seven' resolved upon the establishment of a European free trade area and less than six months later, on 4 January, 1960, the EFTA convention was signed. It came into force on 3 May, 1960.

In addition to general aims (such as full employment, financial stability, continous improvement of living standards and expansion of world trade, the EFTA convention provides for:

1. the achievement of fair competition in trade between the member States. The preamble, too, states in particular that the removal of trade barriers and closer economic co-operation between the OEEC countries, including the EEC countries, must be facilitated;
2. the avoidance of any appreciable disparity in the supply of raw materials produced in the territory covered by the Association.

The secretariat of the Association is at Geneva.

M.A.G. Van Meerhaeghe

Since the wider EFTA—European Free Trade Area—consisting of the EEC, the U.K. and other and OEEC countries could not come into fruition (the negotiations broke down at the fag end of 1958) the miniature EFTA—the European Free Trade Association consisting of the "outer seven"—Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the U.K. came into existence on 3rd May, 1960. Finland and Iceland became associate members in 1961 and 1970 respectively. On January 1, 1972, the EFTA became crippled on account of the entry of Britain and Denmark into the European Common Market.

Compiler

EUROPEAN INVESTMENT BANK (EIB) (*International economics)

One of the six administrative organs of the European Economic Community, the other four being (i) The Council, (ii) The Commission, (iii) The Economic and Social Committee, (iv) The European Parliament, and (v) The European Court of Justice.

The Bank was set up by the EEC in 1958 with the headquarters at Brussels with a view to assist economic development within the Community especially of the less developed areas. Italy has received the largest assistance.

Compiler

EUROPEAN MONETARY AGREEMENT (E.M.A.) (*International economics)

A regional organisation that replaced E.P.U. (the European Payments Union) in December, 1958. It contains provisions relating to the settlement of intra-European payments.

Compiler

EUROPEAN MONETARY UNION (E.M.U.) (*International economics)

A scheme to unify the currencies of the EEC countries. It was to start in 1974.

Compiler

EUROPEAN PAYMENTS UNION (E.P.U.) (*International economics)

A regional payments organisation designed to stimulate multilateral trade among member countries. Sponsored by OEEC (Organisation for European Economic Co-operation), the union came into existence in 1950.

It replaced I.E.P.A. (Intra-European Payments Agreements which was arranged in 1948 under the E.R.P. (European Recovery Programme, popularly called the Marshall Plan).

The E.P.U. provided within limits for automatic credit by allowing the member countries to offset payment surplus and deficits. It was based on the principles of multilateralism and non-discriminatory treatment between the members.

It came to an end in December 1958 and was replaced by the European Monetary Union in the wake of convertibility among the pound sterling and other West European currencies.

Compiler

EUROPEAN RECOVERY PROGRAMME (ERP) (*International economics)

The Second World War had left Europe in a critical economic situation. Agriculture and industrial production had fallen to a low level, open or repressed inflation was the general rule and the necessary imports especially those from the U.S—could not be paid for. The bad economic conditions furthered the growth of Communism which extended its influence more particularly in France, Italy and Greece.

After the unsuccessful endevaour in Moscow in March 1947 (the conference between the U.S., the U.S.S.R., Great Britain and France) to bring about co-operation for the reconstruction of Europe the American Secretary of State, General S.C. George C., Marshall, conceived the idea of a European Recovery Programme.

On 5 June 1947 he expounded this view at Harvard University. The United States declared its readiness to aid the European countries within the framework of a co-ordinated programme drawn up by those countries. The proposal was favourably received by the latter, but met with opposition from the Soviet Union. On 3 July 1947 the Foreign Ministers of France and the U.K. invited the European States to a conference in Paris in order to formulate a recovery programme. [In January 1949, Comecon (A Council for Mutual Economic Assistance) was created in Moscow.] The meeting held on 12 July, which was attended by 16 countries led to creation of CEEC (the Committee of European Economic Co-operation). The role of CEEC was to determine the principles of the recovery programme. On 22 September 1947, it handed in a report to the American government.

In the U.S. the aid programme was examined by the Commission presided over by A. Harriman, J. Crug, E. Nourse and L.A. Herter. On 3 April 1948, the Economic Co-operation Act (ECA) was approved by President Truman; for the first year (1948/49) 5055 million dollars were

allocated to the European Recovery Programme (During the four years covered by the programme, approximately 14 billion dollars were allocated). An agency with headquarters in Washington, and an office of the Special Representative (OSR) in Europe, were set up to implement ECA. After a working group, composed of representatives of 16 countries and the occupied zones of Western Germany, had been formed to study the structure and functions of a permanent organ, the Convention for European Economic Co-operation, which established OEEC, was finally signed on 16 April 1948.

M.A.G. Van Meerhaghae

ERP is popularly known as the Marshall Plan or Aid. It was a series of gifts of dollars to Europe. The idea was mooted in June 1947 by G.C. Marshall at Harvard University. The conference of 16 western European countries in Paris led to creation of OEEC (in 1948)—an agency to implement the programme. On 3rd April, 1948, President Truman signed the Foreign Assistance Act which put Marshall Plan on a definite basis. The Soviet Union did not join but formed COMECON—a parallel programme—for the Communist countries (See Comecon).

Compiler

EVASION OF TAXES (*Public finance)

The term evasion of taxes as distinguished from the term avoidance of taxes refers to the malpractice of concealing the exact amount of taxable income and paying tax on deflated income. The result is black money.

Compiler

EVALUTIONARY STATE (*Economic methodology)

The term evolution may be used in a wider and a narrower sense. In the wider sense it comprises all the phenomena that make an economic process non-stationary. In the narrower sense it comprises these phenomena minus those that may be described in terms of continuous variations of rates within an unchanging framework of institutions, tastes, or technological horizons, and will be included in the concept of growth.

Evolutionary state is the opposite of Stationary state.

J.A. Schumpeter

EX-ANTE (*Monetary economics)

Anticipated or planned.

Compiler

Looked at in anticipation; the expectation of what is to come.

W.W. Haines

EX-ANTE AND EX-POST (*Monetary economics)

Ex-ante and ex-post are the Latin phrases meaning "beforehand" and "afterwards" respectively. *Ex-ante* in economics refers to the position *before* some event or occurrence takes place. Recognition of time period is significant in economic theory. The concepts of *ex-ante* and *ex-post* were originated by Gunnar Myrdal in his discussion of monetary theory. These terms are used particularly with reference to the saving-investment theory, when the saving or investment of one period (the *ex-ante* saving or investment) is related to the saving or investment of the period immediately following (the *ex-post* saving or investment). *Ex-ante* refers to what was expectated before certain events took place and *ex-post* to the actual situation which arises. *Ex-post* saving is always equal to *ex-post* investment, but *ex-post* saving is not necessarily equal to *ex-ante* saving.

The term *ex-post* is used along with the term *ex-ante* in connection with the period analysis of the saving investment theory of Lord Keynes.

M.L. Seth

EX-ANTE AND EX-POST EXPENDITURE ((*Monetary economics)

These terms were first used by Gunnar Myrdal in 1927.

Ex-ante expenditure—intended or planned expenditure. *Ex-ante* (as of before it happens) expenditure is what everyone expects to spend when looking forward from the beginning of a period. *Ex-post* (as of afterwards) expenditure is what people find they have spent when they look back on the period after it has ended.

F.S. Brooman

EX-ANTE INVESTMENT (*Monetary economics)

Business plans for expansion.

W.W. Haines

EX-ANTE SAVINGS (*Monetary economics)

The saving that consumers expect to make in the future.

W.W. Haines

EX-DIVIDEND (*Industrial economics)

Without dividend 'Ex' means excluding.

Compiler

EX-POST (*Monetary economics)

Actual or realised.

Compiler

Looked from hindsight ; the record of what has already happened.

W.W. Haines

EXCESS CAPACITY (*Theory of value)

Unused or idle capacity. When the productive factors are not fully utilised, the phenomenon of excess capacity arises. In simple language, the term excess capacity indicates that the output can still be increased with the given factors.

Compiler

EXCESS DEMAND CURVE (*Theory of value)

The relation between the price of the commodity and the difference between the quantity demanded and the quantity supplied.

Richard G. Lipsey

EXCESS PROFITS DUTY (*Public finance)

A tax on the excess profits imposed on companies in England under the Finance Act, 1952. It was applied at the rate of 30 per cent of the excess profits or 15 per cent of the total profits, to the amount by which the current profits exceeded 'standard' profits—the average of the profits for two of the three years, 1947-49.

Compiler

EXCESS PROFITS TAX ((*Public finance)

A tax levied (in England) upon excess profits arising from the Second World War. It applied to all trades and businesses. It was charged on the amount by which the profits exceeded the standard based on past profits. The tax rate was 60 per cent upto 1940, 100 per cent until 1945 and 60 per cent in 1946.

The tax which was similar to the excess profits duties levied during the First World War abolished in December 1946. It was resurrected in 1952 in the form of Excess Profits levy, but it too was repealed a year later.

In India the excess profits tax was levied in 1940 on Excess Profits emanating from the World War-II, at the rate of 50 per eent. The then Finance Minister Sir Arehibald Rowlands announced its complete abolition on profits earned after March, 31, 1946.

Compiler

EXCESS(IVE) RESERVES (*Monetary economics)

The amount of reserves (usually currency plus amounts owned by other banks) held by a bank minus the amount it is required to hold by law or custom.

W.W. Haines

EXCHANGE (*Theory of value/Economics)

The term is used in several senses:

1. Exchange (i.e., theory of exchange) is one of the sub-division of economics, the others being (a) production, (b) distribution, (c) consumption, an d (d) public finance.

2. Exchange means market.

3. The term implies transfer of a commodity or service from one person or institution to another in return for a commodity, service or money.

If the goods are directly exchanged for one another, the system is termed barter.

4. Abbreviation of foreign exchange.

Compiler

EXCHANGE BANKS (*Monetary economics)

The institutions through which foreign bills of exchange are bought and sold or through which inter-bank transfers of money are made.

Rajnarain Mathur

The banks that specialise in financing foreign trade. In India they are called foreign exchange banks since they are incorporated outside India.

Compiler

EXCHANGE BROKER (*International economics)

An agent operating on a commission basis on behalf of others on the foreign exchange market.

Compiler

EXCHANGE CLEARING (*International economics)

A severely restrictionist type of exchange control adopted by Germany after 1931.

Compiler

EXCHANGE CONTROL (*International economics)

It consists of all interferences by monetary authorities on the exchange market.

Paul Einzig

It consists in the centralisation of all dealings in foreign exchange in the hands of a public authority.

Heilperin

A situation in which the government prohibits all transactions in foreign exchange except under prescribed conditions and at pre-determined rates.

W.W. Haines

In a broad sense, exchange control embraces all measures directed towards stabilizing the market in foreign exchange.

Howard S. Ellis

The state regulation excluding the free play of economic forces from the foreign exchange market.

Gottfried Von Haberler

Exchange controls are controls over payments to foreigners, whether for goods, services of capital items.

A.C.L. Day

The term exchange control means simply measures to change directly demand and supply on the foreign exchange market.

There are two ways of regulating exchange rates. One consists of sales or purchases by monetary authorities. The other method is to destroy the freedom of the market.

Bertil Ohlin

By 'exchange control' we refer to measures which replace part of the equilibrating functions of the foreign exchange market by regulations alien to the pricing process. The determination of the exchange rate is not left to demand and supply, and the exchange rate loses its equilibrating function as a market price.

Exchange control usually goes together with overvaluation of the currency but overvaluation need not always be accompanied by exchange control.

George N. Halm

A system under which governments control international transactions and exchange values of their currencies.

There are three possible objects of exchange control or management: (1) overvaluation, (2) undervaluation, and (3) avoidance of fluctuation.

There are two broad methods of exchange control: (1) Intervention, and (2) Restriction [Dr. Paul Einzig enumerates in his *Exchange Control* (1934) no fewer than forty-one distinct methods of exchange control].

A government may intervene in the foreign exchange market either to hold the value of its currency up or to hold it down; the former is by far the most common. When Intervention is practised with the object of keeping the currency up to a fixed exchange value, the currency is said to be 'pegged' at that level and 'pegging' is much the most frequent form of Intervention. Pegging down is the other object.

A policy of restriction involves not an artificial *addition* to the *demand* for the country's currency, but a compulsory *reduction* by the government of the *supply* of its currency coming into the market.

Geoffrey Crowther

Control over exchange was adopted both by neutral and belligerent countries during the World War-I. Full-fledged exchange controls were intitiated for the first time in Germany in 1934 by Hjalmar Schact with a

view to preparing Germany for war and to facilitating the expropriation of the Jews and preventing them from taking their capital out of the country.

Compiler

EXCHANG DUMPING (*International economics)

It occurs when in times of inflation, home costs and prices have risen less than the exchange value of the currency has fallen. It is not genuine dumping as there is no price discrimination.

Gottfried Von Haberler

EXCHANGE ECONOMY (*Monetary economics)

An economic system, also known as money or monetised economy in contrast to barter or non-monetised economy, wherein specialisation is introduced and there is widespread use of money to facilitate the exchange of products.

Compiler

EXCHANGE EQUALISATION ACCOUNT (*International economics)

A collection of assets segregated under central control for the purpose of intervention in the exchange rate.

The aim of British Exchange Equalisation Account was that the Account was designed without resisting general trends, to iron out undue fluctuations in the exchanges caused by erratic movements of capital and the disturbing activities of the speculators.

League of Nations

In september 1931, England went off gold standard. The exchange value of the sterling was left freely to fluctuate and to be determined by the free play of market forces. As a consequence, by March 1932, the £ lost its value by 30 per cent as compared to its value under the gold standard.

Hence Exchange Equalisation Account, a department of Treasury was set up in April 1932 with a view to stabilize exchange rate by establishing the state monopoly in the foreign exchange market. The scheme which was designed to carry out British interventionist system of exchange control, was put into operation in June 1932.

The Account which is parallel to buffer stock with resources partly in gold and foreign exchange and partly in sterling intervened in the foreign market and bought sterling when its exchange value appeared to go too low and sold sterling when its exchange value seemed to be going too high. Its important function was to offset the short-term capital movement.

The three purposes of the Account were:

1. to establish monopoly control of the Treasury over the foreign exchange transactions;

2. to prevent the free play of the market forces in the foreign exchange market, and

3. to insulate the internal monetary system from multiple disturbances of fluctuations in the balance of payments.

The British Account continues to intervene on the foreign exchange market.

A similar type of Fund was created by the U.S.A. in 1934 with a capital of $ 2 billion following the devaluation of the dollar by 60 per cent on January 31, 1934 (the price of gold rose to $ 35 per ounce). The main purpose of the American Fund was to defend the $ against the competitive depreciation of other currencies prominently of £.

After the break-down of the gold standard, France too set up a similar Fund in 1936.

The three leading gold standard countries—England, U.S.A., and France—entered into an agreement known as Tripartite Agreement on September 25, 1936 to purchase for gold any of their own currency held by either of the other two countries.

In Britain they call it Equalisation Account whereas the American equivalent is Exchange Stabilisation Fund.

Compiler

EXCHANGE INTERVENTION (*International economics)

A method of exchange control, by which the monetary authorities of a country intervene in the foreign exchange market and buy and sell currencies. (See also *Exchange Control and Intervention*).

Compiler

The ability of the Government to control the exchange rate by intervention depends entirely on the resources of which it can dispose for the purpose.

The best-known example of the policy of intervention is the Exchange Equilisation Account set up by the British Government in 1932.

In the turmoil of recent years, and especially since the outbreak of war in 1939, Intervention has proved for many countries to be far too weak a weapon of control and they have resorted to the more powerful device of Restriction.

Geoffrey Crowther

EXCHANGE MANAGEMENT (*International economics)

The term in contradistinction with free exchange market, denotes all kinds of interference by the monetary authorities of a country in the foreign exchange transactions designed primarily to prevent the free fluctuations in the rate of exchange.

Exchange management is one of the devices for correcting disequilibrium in the international balance of payments.

Compiler

EXCHANGE PEGGING (*International economics)

Exchange pegging an objective of exchange intervention, usually means "pegging up" and rarely "pegging down". Pegging up signifies fixing up the external value of a currency at a level higher than warranted by the purchasing power parity. The technique of pegging (i.e, pegging up) was adopted by England during the World Wars. Between 1916-19 the pound sterling was pegged at an artificially high rate of £1=$ 4.765 —a value higher than the value of the sterling.

In short, pegging up connotes over-valuation as opposed to under-valuation.

Compiler

EXCHANGE RATE (*International economics)

The rate at which two currencies exchange for each other; it is thus the price of one currency in terms of another.

Richard G. Lipsey

By the exchange rate between two monetary units, we mean simply the number of units of one money required to buy one unit of the other.

L.V. Chandler

The price of one national currency in terms of a second nation's monetary unit.

W.W. Haines

The rate of exchange measures the number of units of one currency which exchange, in the foreign exchange market, for one unit of another. Thus if the rate of exchange between dollars and pounds is $4=£1, that means that four dollars are considered as having the same value-in-exchange as one pound.

Geoffrey Crowther

Like the price of a commodity, the rate of exchange (i.e the external value of a currency) is determined in the free exchange market by the interaction of demand for and supply of foreign currency. The rate of exchange thus determined is called the equilibrium rate of exchange.

The equilibrium rate of exchange is determined differently under different monetary systems.

Under gold standard, the rate of exchange is determined according to the mint parity theory of foreign exchange. Under inconvertible paper standard, the exchange rate is (according to Gustav Cassel) determined according to purchasing power parity theory of foreign exchange. Refuting Cassel's theory, the proponents of balance of payments equilibrium theory of foreign exchange, assert that the exchange rate is determined by the balance of payment of the country.

Compiler

The exchange rate is the price of a foreign currency. In other words, it shows how many units of the national currency are needed in order to obtain one unit of a foreign currency. The exchange rate is thus quoted with a fixed external value. In the United Kingdom, on the other hand, it is quoted with a fixed internal value, showing the number of foreign currency units which can be obtained with one pound sterling.

At one time, payments to and from other countries were usually made with bills of exchange; hence the term exchange rate, which was maintained when the bill of exchange, as in the case of internal transactions, fell into disuse for dealings with other countries. The instruments employed today for international payments are cheques and transfers.

According to the general rules of price determination, the price of a foreign currency is determined by the demand for and supply of the currency concerned.

Among the countries on the gold standard, exchange rates are shown by the ratios between the weights of the various monetary units in gold.

M.A.G. Van Meerhaeghe

EXCHANGE RATIONING (*International economics)

Exchange allocation policy.

L.V. Chandler

(See "Exchange restriction"—Compiler).

EXCHANGE RESTRICTION (*International economics)

The term applies to any departure from a system of free multilateral international payments. It, therefore, includes all restrictions on the types of transactions in exchange markets, the prices that may be received or paid for moneys, the use of receipts from abroad, the purposes for which international payments may be made and so on.

L.V. Chandler

One of the two broad methods of exchange control, the other being intervention. It is more powerful than the device of intervention. The fundamental difference between the two methods is that a government that is practising Intervention must add to the volume of transactions in the foreign exchange market and must have, or expensively acquire, resources in foreign currencies to enable it to do so, whereas a policy of Restriction involves not an artificial *addition* to the *demand* for the country's currency but a compulsory *reduction* by the government of the *supply* of its currency coming into the market. Demand is increased relatively to supply and the value of the currency is maintained.

If we are to keep to a strict definition, anything that diminishes the turnover of the foreign exchange market constitutes Restriction. The earmarks of Restriction in this sense are three. First, all trading in foreign exchange is centralised in the Government and its immediate agents. Second, permission is required from the Government before the national

currency can be offered in exchange for any other. And third, it is made a criminal offence for anyone to enter into an exchange transaction except by the permission, and through the agency, of the government.

Exchange restriction in this sense first appeared (outside Russia) in Germany and Austria in the financial crisis of 1931. In the succeeding years up to 1939, Germany was the poineer in methods of Exchange Restriction.

Exchange Restriction is of numerous types.

Geoffrey Crowther

EXCHANGE SPECULATION (*International economics)

Buying and selling by speculators; claims against money just as buying and selling securities and commodities, with the hope of gaining or at least avoiding losses, from price changes through time (Exchange) speculation occurs in two types of markets: forward exchange markets and spot markets.

Lester V. Chandler

EXCHANGE STABILIZATION FUND (*International economics)

The American equivalent of English "Exchange Equalisation Account". It was established in the USA, in 1934.

See "Exchange Equalisation Account".

Compiler

EXCHANGE STANDARD (*Monetary economics)

A managed Representative Money the objective standard of which is the legal tender money of some other country.

Lord Keynes

EXCHANGE VALUE (*Theory of value)

Ratio in which goods or commodities or services are exchanged for other goods, commodities or services, i.e., the quantity or number of units of every other kind of goods which may be exchanged for a given quantity or a given unit of the first mentioned goods.

Adam Smith showed the diversion between value in use and value in exchange with the examples of water and diamond.

Knut Wicksell

According to Adam Smith, value is of two kinds: (i) value in use or use value which means utility and (ii) value in exchange or exchange value which implies price.

Usually by value is meant exchange value.

Compiler

The power of a commodity in exchange or purchasing power, i.e., the command over other goods which its owner is able to obtain in exchange for it.

Anatol Murad

EXCHEQUER (*Monetary economics)

In England, the department of the public service which receives public revenue is called Exchequer. It originated in the reign of King Henry I; the name is derived from the Latin *Scaccarium* (chess-board): a chequered cloth was used to cover the table for simplifying the counting of money.

Compiler

EXCHEQUER BONDS (*Monetary economics)

British Government short-term bonds which are originally issued with short lives—one or two or five years.

R.S. Sayers

EXCISE DUTY (**Public finance)

Tax levied on goods produced and sold within the country.

Das and Chatterji

Tax on a particular commodity usually collected from the manufacturer or wholesaler.

G.L. Bach

Taxes imposed upon the sale of particular commodities are generally termed "excises" or "selective sales taxes". They are utilized extensively by both the federal and the state governments (U.S.A.). The federal excise laws employ both specific and *ad valorem* taxes.

Philip E. Taylor

A tax on home produced goods.

The use of the term "excise" in this restricted sense appears to date from 1643, when both the type of tax and the name were taken over from the Dutch. In the U.S. the more general use of the term previously customary in England continued in use.

Ursula K. Hicks

EXIM BANK (*Monetary economics)

Export-Import Bank. Exim Bank of India was set up on January 1, 1982 with Mr. R.C. Shah as the first Chairman. Exim banks of America, Japan and Korea were established in 1934, 1950 and 1976 respectively. (see also Export-import Bank)

Compiler

EXISTENCE THEOREM (*Mathematical economics)

A theorem which states that some equation or set of equations possesses at least one solution. It does not tell us anything about the operation of the economy—rather, it tells us something about the operation of the Walrasian model. An existence analysis can serve only as a

test for a general equilibrium model. An existence theorem is a rather esoteric idea. It assures us that a problem can be solved but it may tell us nothing about how to go about solving it.

The other theorem is unique theorem which states that the system has no more than one solution.

William J. Baumol

EXOGENOUS THEORIES OF BUSINESS CYCLES (*Business cycles)

The theories which assume external disturbances (in contrast to economic forces) e.g., crop changes or inventions—in order to explain the business cycle.

Gottfried Von Haberler

An exogenous business cycle theory is based on the observation of a variable which influences the economy, but is *not* itself influenced by the economy. This theory explains the business cycle (expansion and contraction) in terms of a particular external variable, such as sunspot, weather, innovation, war, population etc.

Compiler

EXPATRIATE BANK (*Monetary economics)

Overseas bank.

Compiler

EXPECTATION (*Keynesian economics)

Prospective yield which an entrepreneur expects to obtain from selling the output of his capital assets.

Expectation may be (i) short-term expectation or (ii) long term expectation.

Short-term expectation concerns the sales proceeds from the output of existing plant while the long-term expectation concerns the sales proceeds which an entrepreneur can hope to earn with variations in the size of his plant or from the building of entirely new plant.

Dudley Dillard

Expectations are one of the psychological influences considered by Lord Keynes in his theory of employment. Expectations of the businessmen with regard to the future trend of business activity in the economy exert an important influence on the volume of investment in capital goods industries. If there is optimism regarding the future trend of business activity, there is high level of investment in the economy. On the contrary, if the businessmen are pessimistic about the future, it results in a smaller amount of investment in the economy. Lord Keynes related business expectations to the marginal efficiency of capital.

M.L. Seth

Lord Keynes in chapter 5 of his the *General Theory* (1936) discusses Expectation as Determining Output and Employment. He begins by introducing time: "Time usually elapses, however—and sometimes much time—between the incurring of costs by the producer (with the consumer in view) and the purchase of the output by the ultimate consumer". The entrepreneur has to form the "best expectations he can as to what the consumer will be prepared to pay when he is ready to supply them". The modern entrepreneur, since he must produce by "processes which occupy time", has no choice but to be "guided by these expectations". (All the above quotations are from the *General Theory*).

These expectations fall into two groups. One class relates to the *Producer* and these may be called "short-term expectations". The second relates to the prospective returns which can be anticipated from a long-term, durable asset. These may be called "long-term expectations". Short-term expectations have to do with the outlook for sales; long-term expectations have to do with *Investment* in *fixed capital.*

The "use of the method of expectations", said J.R. Hicks in his first review article on the *General Theory* (*Economic Journal*, June, 1936) "is perhaps the most revolutionary thing about this book".

Alvin H. Hansen

EXPENDITURE CURVE (LINE) (*Theory of value)

Terminology for this line (curve) is not standardized. Other names in the literature for the curve are budget line, budget restraint, consumption possibility line, outlay line, price line, and price income line.

The budget line can be thought of as the limiting boundary on the consumer's opportunities for acquiring commodities X and Y.

The slope of the budget line shows the ratio of the prices of the two commodities.

D.S. Watson

Also known as price line, price opportunity line, budget line, price income line, or total outlay curve, it represents the different combinations of two goods which can be brought with the given money income.

It changes its slope and position according to changes in the relative prices of the two goods and, money income respectively.

In terms of indifference Curve analysis, the consumer is said to be in equilibrium at the point of tangency between expenditure curve and indifference curve.

Compiler

EXPENDITURE TAX (*Public finance)

By an expenditure tax, we mean an income tax on personal income which specifically exempts current saving from taxation and specifically includes dissaving. The major effect of such a tax, as compared with a uniform income tax, is to alter the balance between spending and saving by giving greater encouragement to the latter.

It is sometimes argued that an expenditure tax will be more conducive to risk-bearing than a comprehensive income tax on accrued income. It is doubtful whether much weight should be attached to this point. The expenditure taxation, in the usual sense of taxing income less saving, is likely to encounter plenty of administrative difficulties.

A.R. Prest

Mr. Nicholas Kaldor is a most persuasive advocate of an expenditure tax. It is a tax upon personal expenditure and not personal income. Such a tax has great attractions. But, in practice, there are great administrative difficulties, much greater than with income tax, and it is not yet clear that these could be effectively surmounted. With Kaldor I have several times discussed the question.

Hugh Dalton

It may be argued that a person should be taxed in accordance with what he takes out of the common pool and not in accordance with what he puts into. This view may be found in Hobbes's *Leviathan*, and has recently been advanced by Nicholas Kaldor.

Kaldor in his spirited and imaginative book, *An Expenditure Tax* (1955) attempts to marshall all possible, and not-so-possible points in favour of a spending tax. He holds that the income tax in practice is so inefficient a measure of accretion that a spending tax would be superior. In reaching this conclusion, insufficient attention, it seems to me, is paid to the practical difficulties of a spending tax. Kaldor's case is strongest when he holds that the spending tax is desirable as a matter of economic policy. It serves to discourage dissaving and luxury consumption by people with large properties, if not high incomes, and thus raises the level of capital formation without reverting to reggressive taxation.

Richard A. Musgrave

Expenditure or spending tax is an innovation of Prof. Nicholas Kaldor of Cambridge University. He first proposed it to the Royal Commission on Taxation in Great Britain. But the British Government turned down the proposal.

Professor Kaldor was invited in January 1956 by the Government of India to suggest reforms in the Indian tax structure. Accordingly, in his *A Report on Indian Tax Reform* (1956), Kaldor recommended expenditure tax. The proposal was enthusiastically accepted and Mr. T.T. Krishnamachari, the then Finance Minister imposed it on April 1, 1958 under the Expenditure Tax Act passed by the Parliament on September 13, 1957. Mr. Morarji Desai, the next Finance Minister abolished it with effect from April 1, 1962. (The late) Mr. TTK who came back as Finance Minister reintroduced it in his budget for 1964-65. The next Finance Minister the late Mr. Sachin Choudhuri abolished the tax once for ever on April 1, 1966. Thus the Kaldorian expenditure tax went into eternal oblivion after much ding dong.

India was the first country in the world to introduce and abolish Expenditure tax.

The tax was repealed on the ground that it yielded negligible income and put disproportionately high burden on the administration.

The expenditure tax (in India) was payable on the disposable income of an individual or a Hindu Undivided Family (H.U.F.) when such income exceeded Rs. 36,000 in the assessment year. The disposable income was computed by deducting from the total income, the income tax, the super tax, and the wealth tax. This implied that the income before payment of the tax was to be not less than Rs. 60,000. The tax rate varied between 5 per cent and 20 per cent.

Compiler

EXPENSES OF PRODUCTION (*Theory of value)

Money cost of production, i.e., the sums of money that have to be paid for efforts and sacrifices involved in the production of a commodity.

Alfred Marshall

EXPLOITATION (*Theory of value)

Situation in which a factor receives less than the marginal increment it adds to the product.

A.C. Pigou

It also means harnessing of resources.

Compiler

EXPLOITATION OF LABOUR (*Theory of value)

The payment to labour of less than its proper wage. It arises from the unequal bargaining strength of employers and employed.

Mrs. Joan V. Robinson

That situation in which labour gets a wage less than the marginal physical product valued at its selling price.

Arthur Cecil Pigou

The paying of wages which are less than the full value of a workman to the employer.

A. L. Meyers

Pigou characterized a situation in which a factor receives less than the marginal increment it adds to the total product as "exploitation." Pigovian exploitation is due to "monopsony" in the labour market resulting in a divergence between average and marginal factor costs.

The term "exploitation" to describe a situation in which labour receives less than its marginal value or marginal revenue product conveys

the unfortunate suggestion that labour's marginal value product or marginal revenue product constitutes its "just reward.". But Pigou's point has nothing to do with equity.

Pigovian exploitation differs from Marxian "exploitation" because it is due to imperfect competition in the labour market; Marxian exploitation, on the other hand, prevails even in perfectly competitive labour markets. It is designed to show that maximum efficiency in production is incompatible with a difference between the wage rate and the MVP or MRP of labour to the firm. It is the community and not the workers in question who are being exploited.

On Marx's definition, "exploitation" can cease only when the whole current net output of labour accrues to labour as current consumption: "exploitation" means positive net investment.

Mark Blaug

Payment to a worker of a wage less than the marginal revenue product which would be attributable to this type of labour in a monopolistic economy in which a perfect market for labour existed.

Gordon F. Bloom

EXPORT BANK OF JAPAN (*Monetary economics)

It was founded in December, 1950 with the principal objective of providing long-term finance to capital goods industries for exports.

Compiler

EXPORT-IMPORT BANK OF USA (*Monetary economics)

Established in 1934, the Bank is the principal agency of the U.S. Government engaged in international finance. Its purpose is "to finance and to facilitate exports and imports and the exchange of commodities between the U.S. and any foreign country or the agencies or nationals thereof."

The five-man bipartisan Board of Directors is appointed by the U.S. President and the U.S. Secretary of the State is the ex-officio chairman.

Compiler

EXPORT MULTIPLIER (*International economics)

The term refers to the net effect on the level of national income of a country, of an increase in its export earnings consequent upon a shift in world demand from the goods of the rest of the world. In other words, the term signifies the ratio between the increase in the national income of a country and the increase in her export receipts.

Symbolically,

$$Kex = \frac{\Delta y}{\Delta E}$$

Compiler

EXTENSION OF DEMAND (*Theory of value)

Buying more quantity of a goods at a lower price. The term "extension of demand" must be distinguished from the term "increase in demand." The latter implies buying the same quantity at a higher price or larger quantity at the same price.

Compiler

EXTENSIVE AGRICULTURE (*Agricultural economics)

A method of production which uses low labour-to-hand ratios.

Miles Fleming

EXTENSIVE CULTIVATION (*Agricultural economics)

As contradistinguished with intensive cultivation, the term implies the process of bringing more and more land under cultivation.

Compiler

EXTENSIVE MARGIN OF CULTIVATION (*Theory of value)

The grade of land which is only just worth cultivating is said to be on the extensive margin of cultivation.

A. W. Stonier and D. C. Hague

Such land is also called marginal or no-rent land.

Compiler

EXTENT OF THE MARKET (*Theory of value)

The size of the market for the products of a particular factory or farm or other productive unit. It is measured not by the geographical area over which products are sold nor even by the population of that area. It is measured by its potential volume of sales.

F. Benham

EXTERNAL DEBT (*Public finance)

It refers to the obligations of a country to foreign Governments or nationals or international financial institutions.

Andley and Sundharam

The national debt is broadly classified into (i) internal or domestic debt, and (ii) external or foreign debt. It is agreed that external debt is more burdensome than internal debt.

Compiler

EXTERNAL DISECONOMIES (*Theory of value)

External economies and diseconomies are changes in the position of the long-run cost curves of firms when the changes are caused by the growth of the industry. External diseconomies cause firms' cost curves to be lifted up.

Marshall did not use the expression "external diseconomies", but instead wrote about the tendency toward diminishing return. External diseconomies accompanying the expansion of an industry arise from higher input prices or from diminishing physical productivities of the firms' inputs, or from both.

In the increasing-cost industries, external diseconomies prevail.

D.S. Watson

An expansion of the scale of a company's operations can have disadvantageous effects. These are called external diseconomies of large-scale production, or simply, external diseconomies of scale.

There are various types of external diseconomies: (i) technological external diseconomies—increased output by one enterprise requires the use of larger physical inputs by other firms to produce any given result; (ii) Pecuniary diseconomies—these occur when one firm, by increasing its output, causes a rise in the price of its inputs. That makes it more expensive in *money terms* for other companies who use similar inputs.

Analogous to external diseconomies of production, there are also external diseconomies of consumption. They refer to the disadvantages to others as a result of an increase in consumption.

W.J. Baumol

As the industry expands, there are some cost elements that may rise rather than fall. If the industry is buying its raw materials from other industries that are themselves subject to increasing costs, all firms will have to pay a higher price for raw materials as the number of firms in the industry increases or as a large number of existing firms expand output. There is also the fact that as an entire industry expands, it may have to draw the factors of production away from other industries where their use is increasingly more valuable, and so the expanding industry will have to pay higher prices for these factors. Cost increases of this sort are called external diseconomies.

A.L. Meyers

External diseconomies are those diseconomies in production which depend on increases in the output of the whole industry rather than on increases in the output of the individual firm.

External diseconomies arise where an increase in the size of an industry leads to higher costs for the individual firms composing the industry.

A.W. Stonier and D.C. Hague

EXTERNAL ECONOMIES (*Theory of value)

We may divide the economies arising from an increase in the scale of production of any kind of goods into two classes—External and Internal.

External economies are those dependent upon the general development of the industry.

Alfred Marshall

External economies are the changes in the position of the long-run cost curves of firms when changes are caused by the growth of the industry. The external economies cause the cost curves of the firms to drop.

The idea of external economies is Alfred Marshall's contribution. He drew a contrast with the firms "internal" economics and "external" economics.

D.S. Watson

External economies are those economies in production which depend on increases in the output of the whole industry rather than on increases in the output of the individual firm. External economies occur where an increase in the size of an industry leads to lower costs for the individual firms composing the industry.

A.W. Stonier and D.C. Hague

The concept of external economies (of production) was first formulated explicitly by the English economist, Alfred Marshall, at the end of the 19th Century.

In contrast to a case of *internal* economies where the benefits of the firm's expansion are reaped internally, within the company, the *external* economies case is one where an increase in the firm's production produces benefits part (often a substantial part) of which devolve on others.

This may arise in at least two ways:

(a) By expanding its operations the firm may perform a direct service to others, (b) A second sort of external economy arises when an expansion in the operation of one company makes it cheaper to supply services to all the firms in the industry. There is the case of external economies of *consumption* which refers to advantages to others resulting from an increase in consumption.

W.J. Baumol

The advantages which are external to any firm in the industry.

F. Benham

External advantages of a firm or industry. The term "external" is used because the factors causing the economies are beyond the direct control of an individual firm.

Meier and Baldwin

Economies which are shared in by a number of firms or industries when the scale of production in any industry or group of industries increases.

Cairncross

Those economies that arise outside the establishment which applies them.

F.W. Taussig

Marshallian "external" economies are the economies which are external to the firm but internal to the industry.

Some use the term 'economies' as economies which are external to an individual industry which arise out of the general development of the economy.

A.K. Das Gupta

As an industry expands, the increased demand it offers for tools, supplies, or component parts may make it possible for the other industries that supply these goods to adopt lower cost mass production methods. In this circumstance, the resulting lower prices that the first industry pays for the tools or materials are called external economies to the industry.

A.L. Meyers

EXTERNAL GOODS (*Theory of value)

That the outer world offers to a person for the satisfaction of his wants.

Hermann

EXTERNAL SPECIALISATION (*Theory of value)

The specialisation of products.

K.E. Boulding

EXTERNAL VALUE OF MONEY (*Monetary economics)

It can be taken as measured by the ratio at which a currency exchanges for other currencies.

Geoffrey Crowther

In contrast to internal value of money—the purchasing power of money within the country—the term external value of money refers to the rate of exchange—the rate at which a currency unit exchanges for other currencies.

Compiler

EXTRACTIVE INDUSTRY (*Theory of value)

Industry concerned with extracting material, for example, agriculture, mining, fishery or quarrying.

Also known as primary industry, it is contradistinguished from manufacturing industry.

Compiler

FABIAN ENTREPRENEURSHIP (*Industrial economics)

The entrepreneurs may be classified as (i) innovating entrepreneur, (ii) initiative entrepreneur, (iii) drone entrepreneur and (iv) fabian entrepreneur.

Fabian entrepreneurship is characterised by very caution and skepticism (perhaps simply inertia) but which does imitate when it becomes perfectly clear that failure to do would result in a loss of the relative position of the enterprise.

Clarence Danhop

FABIAN SOCIALISM (*History of economic thought)

Fabian society was founded on January 4, 1884 in London as an alternative to the then dominant Marxist Social Democratic Federation. The beginning of the society was actually made on October 24, 1883 when Edward Pease, Podmore and percival Chubb planned in London to form a society for social reform.

George Bernard Shaw joined the society on May 16, 1884; Sidney Webb in March 1885; and Graham Wallace and Mrs. Annie Beasant in 1886. These four came to be known as Big Four of the fabian thought. Later Beatrice Webb, H.G. Wells, Ramsay MacDonald, G.D.H. Cole etc. joined it.

The symbol of the society is tortoise. Between 1939 and 1949, the society brought out 42 research papers, 40 tracts, 3 biographies, 25 books and 8 booklets.

(See also *Fabianism*)

Compiler

FABIANISM (**History of economic thought)

An English variant of socialism, started by the Fabian society.

Since its birth, fabianism has essentially remained evolutionary and gradualist. That is how it derives its name 'fabian' from Fabins (Quintus Fabins Maximus), the Roman Consul who earned the nickname of Cunctator (delayer) in Rome's struggle against Hannibal. Fabins was known for delaying tactics.

According to fabianism, "In the natural philosophy of socialism, light is a more important factor than heat". The theme of fabian doctrine lay in Sidney Webb's theory of continuity of development from capitalism to socialism. Fabianism is close to State Socialism since it believes in the authority of the Government to organise industries and to appropriate all forms of economic rent of land as well as capital. While Marx looked to the creation of socialism by revolutionary methods, Fabian Socialists were highly critical of revolutionary doctrines of the Marxists and Anarchists. They totally repudiated the Marxist class struggle as the instrument of change and denounced the murderous revolutions of anarchists. They were in essence rationalists and evolutionaries, endeavouring to convince people by logical argument that socialism was desirable. They believed

that the future of socialism depended on the gradual transformation of the society into an awakened and enlightened co-operative commonwealth.

Law of rent forms the cornerstone of fabian economic theory. Fabians applied the theory of land rent to capital and personal ability and considered large incomes to be chiefly rents. They advocated socialisation of monopoly incomes through social ownership of monopolies.

Above all the Fabians believed in Benthamite utilitarianism. Believing in Jevons and his follower Marshall than in Marx, they maintained that socialism would be achieved through democracy.

Compiler

FACE VALUE (*Monetary economics)

The value expressed in terms of the monetary unit stamped on a coin or written on a credit instrument.

Walter W. Haines

An alternative name for nominal value. Contradistinguished from real or intrinsic value, the term face value refers to the value stated on the face of a coin or currency note. Face value is, under inconvertible paper standard, always less than the intrinsic value.

With regard to security, the term implies nominal value (value stated on the face) of a stock or share as distinguished from market value. It signifies "the amount at which a security is to be redeemed or repaid when it matures".

Compiler

FACTOR ABUNDANCE (*International economics)

Rise in capital and labour.

Bo Sodersten

FACTOR COST (*Theory of value)

Factor cost of producing a commodity is the quantity of labour and other factors needed to produce it.

Frederic Benham

The amounts which an entrepreneur pays out to the factors of production (exclusive of other entrepreneurs) for their current services.

Lord Keynes

The price of a commodity paid by the consumer *minus* any tax or duty included in its price. Actually this is the amount which accrues to the productive factors. The national income is calculated at factor cost. Lord Keynes, however, meant by the term the cost of factors of production less the cost of raw materials which he referred to as user-cost.

M.L. Seth

FACTOR ENDOWMENTS (*International economics)

The amounts of factors of production the country possesses.

Bo Sodersten

FACTORS OF PRODUCTION (*Theory of value)

Means of production or resources or agents of production or inputs They are four—land, labour, capital and organisation.

Frederic Benham

All factors from which we derive income in the form of wages, rent and interest.

F.A. Hayek

All the things required for making a commodity.

Alfred Marshall

In modern economic theory, the factors of production are labour and capital. The factors of production are also known as "productive services", or "resources". In much economic literature, they are also called "inputs".

Early in the 19th century, economists distinguished three factors of production, namely land, labour and capital. The owners of the factors of production were landowners, wage earners, and capitalists whose incomes were rent, wages and profits. Late in the 19th century, economists added a fourth factor of production. This was enterprise; profits then became the incomes of entrepreneurs, and interest became the income of the owners of capital.

Whether there are two, or three or four factors of production does not matter very much. Classification is a matter of convenience and relevance.

Donald S. Watson

The triad of agents, or factors, or requisites—or instruments (Senior)—land-owners, workmen, and 'Capitalists' is not popular with modern economists. It established itself, more or less, around the middle of the nineteenth century and took a new lease of life through A. Marshall's sponsorship of it. (Marshall had indeed a fourth factor or agent of production, Organization. But this is only a label for a compound of topics—such as division of labour and machinery—of which business management is only one. It is not an agent in the same sense as are land labour, and capital). And it still survives, owing to its handiness in elementary teaching.

Joseph A. Schumpeter

Originally three factors of production *viz.*, land, labour and capital were conceived. Marshall added the fourth—organisation or enterprise.

The modern economists have reduced the number of productive factors to two—land and labour, arguing that land, embraces capital, and organisation is a special type of labour. Accepting the four-fold classification, it may be observed that land and labour are primary inputs whilst capital and organisation are secondary factors.

Compiler

FACTORY SYSTEM (*Industrial economics)

The term is applied to any production system wherein people are brought together in a common workshop where the tools of production are provided by the owner in order that the worker may produce goods or services to be sold to others.

Srivastav, Nigam, Sahai and Banerjee

FACULTY THEORY OF TAXATION (*Public finance)

Another name for Ability principle of taxation.
(See *Ability principle*)

Compiler

FAIR WAGE (*Economics of labour)

A wage-rate is fair in the narrower sense, when it is equal to the rate current for similar workmen in the same trade and neighbourhood.

A wage-rate is fair in the wider sense, when it is equal to the predominant rate for similar work throughout the country and in the generality of trades.

A.C. Pigou

Wages in any occupation are fair if they are about on a level with the average payment for tasks in other trades which are of equal difficulty and disagreeableness, which require equally rare natural abilities and equally expensive training.

Alfred Marshall

A wage equal to that received by workers performing work of equal skill, difficulty or unpleasantness.

International Encyclopaedia of Social Sciences

FALLACY (*Economics)

A major part of economic theory has been built up as a result of deductive reasoning. But one of the dangers of this method is that it might give rise to a fallacy. The economist has, therefore, to be on his guard against this type of error. A common fallacy in economics is to assume that what is good for an individual is also good for the economy as a whole. But this may not be true.

M.L. Seth

FALLACY OF COMPOSITION (*Economics)

The fallacy of assuming that what is true of a part is, on that account alone, also true for the whole. As early as 1726, Francis Rawley (alleged to be the first writer on political economy in America) pointed out: "It is false reasoning to make general conclusions from particular cases".

Richard A. Lester

FALLING RATE OF PROFIT (*Marxian economics)

A Marxian conclusion that since the organic composition of capital undergoes a continuous change in favour of constant capital, the rate of profit must have the tendency to fall, because only the variable part of total capital produces surplus value.

The rate of profit is the ratio of surplus value to total capital or $s/(c+v)$. The surplus value springs exclusively from variable capital. A higher organic composition of capital will consequently reduce the rate of profit.

George N. Halm

FAMILY ALLOWANCES (*Economics of labour)

Payment of additional income when the family's needs increase.

Frederic Benham

Family allowance system is one under which the worker's wages are supplemented by surplus proportional to the size of the family.

International Encyclopaedia of Social Sciences

FAMILY BUDGET (*Theory of value)

Way in which families in fact spend their money.

F. Benham

The term adverts to a detailed statement of the income and expenditure of a family for a period of time, say, a month. In other words it alludes to the way in which the families apportion their expenditure among the various commodities and services in a given period of time, usually a month. The family budget prepared by Earnst Engel, a German statistian in 1857, is the earliest and the most famous.

The family budget differs from the national or state budget in that in the former expenditure is planned for the current month and is adjusted to the income whereas in the latter the anticipated revenue is adjusted to the planned outlay in the budget year.

Compiler

FAMILY PLANNING (*Demography)

Also called planned parenthood by Dr. S. Chandrasekhar, an eminent Indian demographer, the term signifies conscious limitation of the

size of the family. It means having babies by choice and not by chance or accident. According to *Yojana* (dt. July 9, 1967) "Family Planning is an instrument of social transformation; it aims at creating better parents, healthier children, happier homes; it seeks to inject social responsibility into married life".

India launched nation-wide Family Planning Programme in 1952. The slogan of the programme is "two children ideal; three children enough". The Government of India is spending a sizeable amount on the family planning programme in successive national plans. It increased from Rs. 65 lakhs in the First Five-Year Plan to Rs. 1010 crore in the Sixth Five-Year Plan.

The different methods of family planning (birth control) adopted in India are: (i) Sterilization, (ii) IUCD (Intrauterine Contraceptive Device), (iii) Condom or Sheath (Nirodh), (iv) Oral pill, (v) abortion (legalised), (vi) Jelly and (vii) Diaphragm.

The family planning programme has been a grand success in Japan and but not in India. In 1979 China adopted one child per family norm.

Despite vigorous adoption of family planning programme by many countries, the world population was 4508 million in 1981 (according to the UN Demographic Year Book).

According to Benjamin Higgins, "among the first countries to achieve essentially stable population by limiting birth rates were the Roman catholic countries of France, Italy, and Spain."

Compiler

Family Planning as an official programme was adopted (in India) in 1952. The programme which is totally voluntary, was reorganised in the Third Plan. A full-fledged Department of Family Planning was created in 1966 in the Ministry of Health, Family Planning and Urban Development. In 1966-67, the programme was made time-bound and target-oriented.

The programme is implemented through the State Governments as a Centrally-sponsored scheme with full financial assistance.

The Central Family Planning Council advises on family planning at the national level.

Voluntary organisations and private medical practitioners are also fully associated and involved.

India 1973

FAMINE (*Economics of development)

A state of extreme hunger suffered by the population of a region as a result of the failure of the accustomed food supply.

International Encyclopaedia of Social Sciences

FARE (*Economics of transport)

The price we pay for a journey by rail, bus etc.

F. Benham

Fare is the charge for transporting human beings while freight is the charge for transporting goods and animals.

Compiler

FARM (*Agricultural economics)

All the land which is directly farmed by one person either by his own labour alone or with the assistance of members of his household or hired employees.

U.S. Census of Agriculture

FARM LABOURER (*Agricultural economics)

A person who performs some manual work for a stipulated wage.

G.W. Forster and M.C. Leager

Alternatively called agricultural labourer, he happens to be generally land-less.

Compiler

FARM OWNER (*Agricultural economics)

A person who holds property in fee simple.

G.W. Forster and M.C. Leager

FARM PRICE (*Agricultural economics)

The price guaranteed (by the government) to the farmer for his farm-products. In India it is called procurement price.

Compiler

FARM RELIEF (*Agricultural economics)

The term designates the measures—temporary or permanent—by the government or private agencies, designed to alleviate the economic distress of the farmers.

Compiler

FARM TENANT (*Agricultural economics)

A person or agency that acquires the use of property from an owner.

Forster and Leager

FARMER'S CAPITAL (*Agricultural economics)

It includes land and farm buildings as well as agricultural machinery and live-stock.

Frederic Benham

FARMING (*Agricultural economics)

An industry made up of a large number of relatively small highly competitive business units called 'farms'.

G.W. Forster and M.C. Leager

FASCISM (*History of economic thought)

Viewed historico-genetically, fascism is a curious admixture of syndicalism and Italian nationalism. In short it is national socialism. It was introduced in Italy in 1922 by Benito Mussolini. Fascism which can be delineated both as "a negation of liberalism and parliamentarianism" and the "unlimited sovereignty of the state over all phases of national activity" was founded as an alternative to the democratic method of rule, to check the spread of communism. Hence, it apparently resembles capitalism in origin. Mussolini's dictum, "Everything in the state, nothing against the state, nothing outside the state" makes it evident that the main feature of fascism is extreme nationalism and self-sufficiency. It contradicts democratic concepts, condemns peace, glorifies war and considers the society as an end and individuals as the means. It regards the government as the government of experts, of men capable of transcending their personal interests and willing to serve only for the purpose of military strength and prestige of the state.

Adolf Hitler established in Germany Fascism, albeit with a different name—Nazism—in 1932 to contain the spread of communism.

Fascism today is defunct.

Compiler

Many controls are temporarily applied and accepted in a private enterprise economy during total war. If such controls are made permanent for the achievement of collective peacetime purposes, we establish an authoritarian "private enterprise" system (Fascism). Superficially it maintains private property in the means of production, has essentially the same income distribution as the real private enterprise system and maintains, on paper, the same economic freedoms to consume and to work, together with private initiative and competition. Nevertheless, fascism implies a totalitarian collective plan because social aims are consciously set by the leader and because these ends always take precedence over the private ends of individuals.

George N. Halm

Fascism is diametrically opposed to capitalism and communism. Its economic aspects are: (i) state control, (ii) military expenditure, (iii) private enterprise and (iv) self-sufficiency. Mussolini (a former journalist), Alfredo Rocco (one time professor of Law and Minister of Justice under Mussolini) and Giovanni Gentile (noted Hegelian philosopher and Minister of Education 1922-24) developed the fascist theory.

The defeat of the Axis powers in the Second World War put an end to fascism, but the fascist cult still remains a powerful force in the world.

S.K. Srivastava

FAVOURABLE BALANCE OF PAYMENTS (*International economics)

The balance of payments is often defined as a record of a country's

money receipts from and payments to abroad, the difference between receipts and payments being the surplus or deficit.

In an open economy, total receipts may differ from total payments and their difference represents the difference between foreign receipts and foreign payments. The positive difference is termed as a surplus and the negative difference as a deficit in the balance of international payments.

A nation's balance of payments is said to be in equilibrium when there is equality between the autonomous supply of and demand for foreign exchange. A position of disequilibrium in the balance of payments assumes the form either of surplus or deficit. The equilibrium is said to be favourable (surplus) when the difference between autonomous demand for and supply of foreign exchange is positive; it is unfavourable (deficit) when this difference is negative.

M.C. Vaish

FAVOURABLE BALANCE OF TRADE (*International economics)

An excess of exports over imports.

A.L. Meyers

When the net value of visible exports of a country exceed over the net value of her visible imports in a given period of time, normally one year, the country is said to have favourable or surplus or active balance of trade during that period.

Compiler

The term is attributed to the Mercantilists. It seems first to have been used in 1767 by Sir James Steurt although the phrase "balance in favour" had been used by Carey in 1695, Pollexfen in 1697 and Macworth in about 1720.

Jacob Viner

FEATHER-BEDDING (*Economics of labour)

A term applied to trade union rules or practices intended to increase artificially the number of persons employed in the firm.

M.L. Seth

FED (*Monetary economics)

An epithet applied by the American financial press, of course with no intention of disrepute, to the Federal Reserve System (U.S.A.)

Compiler

FEDERAL DEPOSIT INSURANCE CORPORATION (F.D.I.C) (*Monetary economics)

A government agency established for the first time in the world in 1933 under the Banking Act of 1933, by the U.S.A. with the objectives of insuring the deposits of the commercial banks against bank failure, of

preventing a run on the banks especially by small investors, and inspiring confidence in the American system. The institution was felt necessary in view of the crisis of 1930's in the wake of the world depression when over 7,000 banks closed their doors.

This public institution was set up with its capital subscribed by the Treasury and the Federal Reserve Banks. In the beginning the FDIC under-took to insure the commercial bank deposits upto $ 50,000.

The Corporation which commenced its operations in 1934, was put on permanent basis by the Banking Act of 1935.

Compiler

FEDERAL OPEN MARKET COMMITTEE (FOMC) (*Monetary economics)

Established in 1935 in the U.S.A., it determines the open market operations of the Federal Reserve system. It is composed of seven members of the Board of Directors, the President of the Federal Reserve Bank of New York and Presidents of four other Reserve Banks. It meets in Washington D.C. at least once every three weeks.

Before 1922, each of the twelve Federal Reserve Banks followed its own open market policy. The Committee attempts to co-ordinate the operations of the Federal Reserve Banks.

(In the U.S. open market operations precede the contemplated change in the bank rate in contrast to the British system in which open market operations are adopted to make the bank rate effective).

Compiler

FEDERAL RESERVE BANKS (*Monetary economics)

In the United States of America, there are twelve Federal Reserve Banks which taken together constitute the Federal Reserve System (which is the Central Bank of America like the Bank of England or the Reserve Bank of India).

After the passage of the Federal Reserve Act of 1913, the country was divided for the purpose of monetary administration, into twelve Federal Reserve districts each of which was to contain a Federal Reserve city (which happens to be a commercially important city) and in each Federal Reserve district a Federal Reserve Bank was to be established.

The twelve Federal Reserve cities where the Federal Reserve Banks are located are: (1) Boston, (2) New York, (3) Philadelphia, (4) Cleveland, (5) Richmond, (6) Atlanta, (7) Chicago, (8) St. Louis, (9) Minneapolis, (10) Kansas city, (11) Dallas, and (12) San Francisco. Of these New York and Chicago are regarded as Central Reserve cities.

Each F.R.B. has numerous branches (members) located in the district. Each of the F.R.B's is a corporation chartered by the Federal Government for an indefinite period. The subscribed capital of each bank is contributed by the member (unit) banks. Each of the Banks is a semi-public and semi-private institution in the sense that it is neither a wholly government institution nor a purely private commercial bank. Each is

under the supervision of the Federal Reserve System. The FRB's serve the public purpose and are accordingly subject to a good deal of control of the central Board of Governors commonly known as the Federal Reserve Board consisting of seven members appointed by the President of America.

Most of the business of a FRB is with the member banks. FRB's do not accept deposits from the private individuals. Each Bank issues notes, holds legal reserves of the member banks and gold certificate reserves of the country's monetary system, acts as a banker to the member banks and the U.S. Government and uses all methods of credit control.

Each of the FRB's consists of nine Directors—six appointed by the member banks and three appointed by the Board of Governors.

The U.S., contrary to the practice in other countries, chose to have twelve central banks instead of one, in order that the large number of member (unit) banks are effectively controlled (At mid 1960 there were 6217 member banks). Moreover because of geographic vastness of the country, it would have been impossible for a single central bank to discharge its functions efficiently. Above all there was strong prejudice against concentration of money power in the East and the South of the country.

Compiler

FEDERAL RESERVE SYSTEM (FRS) (*Monetary economics)

The Central Bank of America. FRS is the collective name given to the twelve Federal Reserve Banks of the U.S.

The history of the FRS goes back to 1719. However, it was founded only in 1913 after a long history of bank failures and financial panics. The head office of the System is in Washington (District of Columbia) 360 Kilometres away from New York, the financial centre of the world.

Following the financial crisis in the U.S. in 1907, the Monetary Commission was appointed in 1908. On the recommendation of the Commission, was passed in 1913 the Federal Reserve Act. The Federal Reserve System—the federation of twelve Reserve Banks—was founded to "furnish an elastic currency, to afford means of rediscounting commercial papers, to establish a more effective supervision of the banking in the U.S. and for other purposes."

Under the Federal Reserve Act, 1913, the U.S. was divided for organisational purposes into twelve districts and for each of which one Federal Reserve Bank was set up. In addition to twelve regional banks, there are twenty-four branch offices. For example, there is a FDR in San Franscisco with a branch in Los Angeles.

At the head of the Federal Reserve System is the seven-member Board of Governors appointed by the President of the U.S. and confirmed by the Senate for a term of 14 years.

FRS determines America's monetary policy.

Compiler

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY (FICCI) (*Industrial economics)

Founded in 1927, the FICCI is recognised by the Central Government as the premier organisation representing commercial and industrial interests in the private sector of the country.

Headquartered at New Delhi, the Federation has on its rolls 185 Chambers of Commerce and Trade and Industrial Associations and 393 Associate Members comprising leading business houses in the country.

Through its constituents, it covers almost the whole of the organised Indian industry and trade. It is represented on almost all important Consultative Bodies of the Government of India. For example the Central Advisory Council of Industries and the Export-Import Advisory Council.

The Federation issues a bulletin *Fortnightly Review* containing information and comments on current economic events in India and abroad.

The Chief of the FICCI—President—is annually elected.

Compiler

FEE (*Public finance)

A payment by a person to the Government on account either of a special benefit received from the Government or a special cost imposed upon the Government in connection with a government service performed for the common benefit.

Fairchild, Buck and Slesinger

A fee is a charge imposed on the occasion of a special service, the service arising incidentally in connection with some comprehensive governmental function.

H.C. Adams

There is no real distinction between the terms—fees, licenses, and permits. They all give rise to government revenues of essentially the same sort; the terms used are likely to have been originally accidental and this original usage persists. They all arise out of a government grant of permission to be or to do something.

Fee is one of sources of revenue to the government.

Philip E. Taylor

FEE SIMPLE (*Agricultural economics)

The full owner of a property. He may at his option dispose of or destroy it as he desires, provided his action does not amount to nuisance.

Compiler

FEEDERS (*Agricultural economics)

The beef cattle that are not entirely ready for processing but that can be made so fairly quickly.

G.W. Forster and M.C Leager

FELICIFIC CALCULUS (*History of economic thought)

Jeremy Bentham's calculus of pleasure and pain.

Compiler

FERTILIZER CORPORATION OF INDIA (FCI) (*Economic history)

The Fertilzer Corporation of India Ltd., a public sector undertaking was formed on January 1, 1961 by integrating the fertilizer units in the public sector. Its units are: (1) Sindri (Bihar), (2) Nangal (Punjab), (3) Trombay (Maharashtra), (4) Gorakhpur (U.P) and (5) Namrup (Assam), (6) Durgapur (West Bengal), (7) Barauni (Bihar), (8) Namrup Expansion (Assam), (9) Ramagundam (A.P.), (10) Talcher (Orissa), (11) Sindri Rationalisation (Bihar) and (12) Trombay Expansion (Maharashtra).

Compiler

FEUDALISM (*History of economic thought)

The system by which land was held in return for military service.

The Abbey Dictionary

The term feudal civilization suggests the idea of a particular type of warrior society, namely, of a society dominated by a warrior stratum that was organized, on the principle of vassalage, in a hierarchy of fief-endowed lords and knights. This warrior class enjoyed unrivalled power and prestige, and hence impressed the stamp of its own cultural pattern upon the civilization of feudal times.

The economic base of this social pyramid consisted of the dependent peasants and manorial craftsmen on whose work the warriors lived.

Joseph A. Schumpeter

FIAT MONEY (*Monetary economics)

Representative (or token) money i.e. something the intrinsic value of the material substance of which is divorced from its monetary face value)—now generally made of paper except in the case of small denominations—which is created and issued by the state, but is not convertible, by law into anything other than itself, has no fixed value in terms of an objective standard.

Lord Keynes

A special kind of token money.

G.N. Halm

Paper money issued with no specific banking and no promise of redemption.

W.W. Haines

Fiat means command. Fiat money is that money that circulates by command or fiat of the state.

Raymond Bye

Paper media of exchange issued by governments merely on the strength of their sovereign power and without any metallic or other backing, are called fiat money or fiat currency. ('Fiat' is Latin for "it shall be".)

Compiler

Fiat money is that variant of legal money which circulates in the country by virtue of the formal command of government of the country. Its salient feature is that its real value is zero or almost zero. Generally it consists of paper currency and inconvertible bank notes.

M.C. Vaish

FIAT STANDARD (*Monetary economics)

A principal class of monetary standard. It is a monetary system in which the value or purchasing power of the monetary unit is not kept equal to the value of a specific quantity of a particular commodity or of a group of commodities. *Raymond P. Kent*

FIDUCIARY (*Monetary economics)

Uncovered.

D. H. Robertson

Fiduciary or invested portion is the security portion of the reserve.

Rajnarain Mathur

FIDUCIARY ISSUE OF NOTES (*Monetary economics)

One of the different systems of note issue. In this system, the central Bank can issue notes without gold backing (unbacked by gold) up to a limit and the limit is known as fiduciary limit.

R.S. Sayers

FIFTH FINANCE COMMISSION (OF INDIA) (*Public finance)

The fifth Finance Commission was constituted by the President of India on February 29, 1968 under the Chairmanship of Mr. Mahavir Tyagi a former central Minister. Dr. D.T. Lakdawala was the economist member of the Commission. The Committee submitted its interim report in September 1968 and the final report on 31 July 1969 on the State's share of taxes, duties and Central grants for the five-year period 1969-70 to 1973-74.

Its main recommendations may be summarised as follows :

Income Tax

The Commission recommended that the distribution of proceeds of the share of income tax in the years 1967-68 and 1968-69 should be in accordance with the recommendations of the Fourth Finance Commission

(i.e. 75 per cent) as payment had already been made to States on that basis. The Commission did not agree to increase the share of the States from 75 per cent of the divisible pool (as was recommended by the Fourth Commission). It, however, raised the percentage of net proceeds attributable to Union Territories to 2.6 for the financial years 1969-70 to 1973-74. Of the balance, it recommended that 75 per cent be assigned to the States. The Commission recommended that 90 p.c. of the states' share of the divisible pool should be distributed amongst them on the basis of population and "the remaining 10 p.c. on the basis of figures of assessments after allowing for reductions on account of appellate orders, references, revisions, ratifications etc." Thus the Fifth Commission restored the formula of the Second Commission". (R.N. Bhargava).

Union excise duties

The State Governments pressed the Commission to increase their share of the proceeds of union excise duties to higher levels ranging from 30 p.c. to 50 p.c. The Commission did not agree to increase the share of the States from 20 per cent of the net divisible proceeds (as under the Fouth Commission) for each of the years 1969-70 to 1973-74. But it recommended that the proceeds of special excise duties should be included in the divisible proceeds from the year 1972-73 in case such special duties are continued. For distributing the State's share, the Commission recommended that 80 per cent of it should be distributed on the basis of population and out of the remaining 20 per cent (a) 2/3rds should be distributed amongst States whose *per capita* income is below the average *per capita* income of all States in proportion to the shortfall of the States' *per capita* income from all States' average multiplied by the population of the state; (b) 1/3rd should be distributed according to the integrated index of backwardness". (R.N. Bhargava).

Additional excise duties

The Commission recommended that "the rates of these duties may be made *ad valorem* as far as possible" and may also be revised periodically, if necessary.

With respect to the distribution of the proceed from these duties, the Commission recommended that out of the net proceeds, 2.05 p.c. be retained by the Government of India as attributable to union territories. Of the remaining 97.03 p.c. of the net proceeds, the guaranteed amount may be first paid to the States and the balance be distributed among them on the basis of equal weightage to sales tax collections and population of respective States.

Estate duty

The Commission endorsed the principles laid down by the earlier Commissions. It raised the share of union territories from 2 per cent to

3 per cent. The Commission fixed the share of each state on the basis of figures of population according to 1961 census.

Tax on railway passenger fares

The Act imposing this tax (1957) was repealed from April 1, 1961. In the opinion of the Commission, there was no scope for the re-imposition of the tax in the existing circumstances. They, however, expressed the hope that "The Railway Convention Committee will take into account the views of the States as well as the representations of the Railways in this regard".

Grants-in-aid

While examining the question of grants, the Commission agreed to include a provision for amortisation or repayment of debt in assessing the revenue requirements of the States.

The Commission did not recommend on the ground of surplus revenue, grants to the states: Bihar, Gujarat, Haryana, M.P., Maharashtra, Punjab and U.P. The total grants recommended to other states amounted to Rs. 637.85 crore.

Adapted from R.N. Bhargava

FIFTH LAW OF SUPPLY AND DEMAND (*Theory of value)

The law states that an increase in the quantity supplied tends to lower price and increase the quantity demanded.

Compiler

FILIATION OF SCIENTIFIC IDEAS (*Economics)

The process by which men's efforts to understand economic phenomena produce, improve, and pull down analytic structures in an unending sequence, may be called the process of the Filiation of Scientific Ideas.

J.A. Schumpeter

FILM FINANCE CORPORATION (OF INDIA) (*Industrial economics)

Following the recommendations of the Film Enquiry Committee, the Government of India set up the Film Finance Corporation in March 1960, to finance feature and documentary films.

Compiler

FINAL DEGREE OF UTILITY (*Theory of value)

W.S. Jevon's term for Marshall's marginal utility and Leon Walras' father Auguste Walras's term 'rarete'.

Compiler

The ratio of the increase in the total utility to the increase in the total quantities of the commodities made by the final unit.

H.K. Manmohan Singh

FINAL GOODS (*Theory of value)

The finished articles which are the end products of production. They include final consumer goods like bread and automobiles and final investment goods like factories and locomotives and increases in inventory. They do not include raw materials and intermediate goods like iron ore and steel.

Dudley Dillard

FINAL GOODS AND SERVICES (*Theory of value)

The goods and services which are not resold.

Allen, Buchanan and Colberg

FINAL PRODUCT APPROACH (*Economics of development)

A method of computing Gross National Product.

Or

A process of summing up of all final purchases.

Bach

FINAL UTILITY (*Theory of value)

Final degree utility i.e. marginal utility.

Compiler

FINANCE (*Monetary Economics/Public finance)

The business of holding and exchanging existing titles to wealth (other than exchanges resulting from the specialisation of industry) including Stock Exchange and Money Market transactions, speculation and the process of conveying current savings and profits into the hands of entrepreneurs.

Lord Keynes

The word signifies money matters and their management.

Hugh Dalton

The art of providing means of payment.

Compiler

FINANCE COMMISSIONS (*Public finance)

Articles 268-281 of the Indian Constitution, 1950 deal with the devolution of revenue between the union and the state governments (union territories included).

With respect to the obligatory sharing of income tax, the optional sharing of excise duties, and grants, the provisions for a Finance Commission has been made in Article 280. The Commission is a statutory body unlike the (non-statutory) body of the National Planning Commission.

Article 280 of the Indian Constitution reads :

"(1) The President shall within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary, by order constitute a Finance Commission which shall consist of a chairman and four other members to be appointed by the President. (2) "Parliament by law determines the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be elected. (3) It shall be the duty of the Commission to make recommendations to the President as to—

(a) "the distribution between the union and the states of the net proceeds of taxes which are to be, or may be, divided between them under this chapter and the allocation between the States of the respective shares of such proceeds;"
(b) "the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of the India;"
(c) "any other matter referred to the Commission by the President in the interests of sound finance."
(d) "The Commission shall determine their procedure and shall have such powers in the performance of their functions as parliament may by law confer on them".

Article 281 provides :

"The President shall cause every recommendation made by the Finance Commission under the provisions of this Constitution together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament."

So far (i.e. 1982) eight Finance Commissions have been appointed as detailed below.

1. First Finance Commission, 1951, under the Chairmanship of Mr. K.C. Neogi;
2. Second Finance Commission, 1956, under the Chairmanship of Mr. K. Santhanam;
3. Third Finance Commission, 1960, under the Chairmanship of Mr. A.K. Chanda;
4. Fourth Finance Commission, 1964, under the Chairmanship of Justice P.V. Rajamannor;
5. Fifth Finance Commission, 1968, under the Chairmanship of Mr. Mahavir Tyagi;
6. Sixth Finance Commission, 1972, under the Chairmanship of Mr. K. Bramhananda Reddy;

7. Seventh Finance Commission, 1977, under the Chairmanship of Justice Mr. J.M. Shelat.
8. Eighth Finance Commission, 1982, under the Chairmanship of Mr. Y.B. Chavan.

FINANCIAL ADMINISTRATION (*Monetary theory/Public finance)

That part of the government organisation which deals with the collection, preservation, and distribution of public funds, with the co-ordination of public revenues and expenditures, with the management of credit operations on behalf of the State and with general control of the financial affairs of the public household.

The term also refers to that part of fiscal science which is concerned with the principles and practices involved in the proper administration of state finances.

International Encyclopaedia of Social Sciences

FINANCIAL CIRCULATION (*Monetary economics)

Deposits used for the purposes of finance.

Lord Keynes

FINANCIAL EXPRESS (*Economics)

A leading technical daily concerning itself with economic affairs of the country and the world. It is published from Bombay by the Indian Express Group of Mr. Ramanath Goenka. The other daily is *Economic Times.*

Compiler

FINANCIAL MOTIVE (*Keynesian economics)

The term coined by Lord Keynes. It is also called "demand for finance". It describes that part of liquidity preference which depends on investment activity.

A.W. Stonier and D.C. Hague

FINANCIAL PLANNING (*Economics of planning)

The essence of financial planning is to ensure that demands and supplies are matched in a manner which exploits physical potentialities as fully as possible without major and un-planned changes in the price-structure.

Second Five-Year Plan, India

The term refers to the problems of raising the necessary finances to pay for factors of production, the calculation of cost and benefits of projects and schemes in terms of money demands and money supplies, so that financial dislocations may not appear.

Andley and Sundharam

FINANCIAL SYSTEM (*Monetary economics)

It consists of those institutions which are mainly concerned with the creation, destruction and exchange of claims.

Kenneth E. Boulding

FINANCIAL YEAR (*Public finance)

Also called fiscal year, it is the period of twelve months covered by the budget.

In the U.S.A., Australia, Sweden and in some other countries the financial year commences on July 1 and ends on 30th June of the following year; in the U.K. it starts on April 6 and ends on April 5 of the next year. In France, F.R.G. and many other continental countries it begins on January 1 and ends on December 31. In India the financial year runs from April 1 to March 31 of the next year, Dr. Raja J. Chelliah, an eminent economist and a member of the Economic Administration Reforms Commission has suggested to change the financial year from the present April-March to October-September.

Compiler

FINE (*Public finance)

Pecuniary penalty for the infraction of law.

P.H. Taylor

FINENESS (*Monetary economics)

The proportion of metal to the total weight of the coin.

F. Benham

FINISHED GOODS (*Theory of value)

Final goods which are for the enjoyment of the ultimate consumer and instrumental goods which are for use in process.

Finished goods = Final goods + Investmental goods = Fixed capital + Hoards.

Lord Keynes

They need not be interpreted in the narrow sense as consumer goods but in a broader sense; goods at any stage are 'finished' relatively to the preceding stage of production.

Gottfried Von Haberler

FIRM (*Theory of value)

Business enterprise.

Bach and Raymond Bye

A concern very similar to the firms of the real world, but which produces only one commodity and is controlled by a single independent interest.

Mrs. Joan Violet Robinson

Sometimes defined as a profit-maximising unit.

Anatol Murad

In every day speech the word is generally used to describe any aggregate of productive resources organised for the production of wealth under a single name.

It is the unit within which the combination and the deployment of the factors of production are governed by a single or at least a unified will. The will is embodied in the person of the entrepreneur.

Beacham

The firm is a unit engaged in production for a sale at a profit and with the objective of maximising the profit.

Though it can be an individual proprietorship, or a partnership, or a corporation, the form of organisation of a firm is not important in price theory. The essence of the idea of the firm is the profit-maximizing unit.

The firm is personified in the entrepreneur, who exercises ultimate and decisive control over the activities of the firm.

Donald S. Watson

The terms—"firm", "entrepreneur", "seller", "producer", "business concern", "unit of production" etc.,—are synonymously used. A firm may be in the form of either sole proprietorship or partnership or joint-stock company or co-operative enterprise.

Compiler

FIRM'S PROFITS (*Theory of value)

Difference between the total revenue and total costs of the firm.

A.W. Stonier and D.C. Hague

FIRST DEGREE DISCRIMINATION (*Theory of value)

Price discrimination (i.e. discriminating monopoly) takes different forms, viz., monopolistic price discrimination, monopsonistic price discrimination, and chaotic price discrimination. Monopolistic and monopsonistic price discrimination are again sub-classified into first degree, second degree and third degree discriminations.

Of all these, monopolistic discrimination of the third degree is the most common of all.

The *Monopolistic* price discrimination of the first degree which is less common, is, according to A.C. Pigou, only achieved when the seller finds it possible to sell each separate unit of output at a different price. Mrs. Joan Robinson terms this type of discrimination as perfect discrimination since it involves maximum possible exploitation of each consumer.

First-degree or perfect *monopsonistic* price discrimination "would be achieved if each unit of the commodity were bought at a different

price." According to Joe S. Bain, it "implies that the monopsonistic buyer, faced with an U-sloping supply curve for the good he purchases, can purchase successive units of the good at separate supply prices and will not need to bid up the prices of all units of the good in order to acquire more of the good". This type of price discrimination is rare but practicable.

Compiler

FIRST FINANCE COMMISSION (INDIA) (*Public finance)

The First Finance Commission was appointed by the President of India on November 22, 1951 under the chairmanship of Mr. K.C. Neogi, in accordance with the provisions contained in Article 280 of the Indian Constitution of 1950, "to consider (a) the distribution between the Union and the States of the net proceeds of taxes which are to be or may be divided between them and the allocation between the States of the respective shares of such proceeds, (b) the principles which should govern the grant-in-aid of the revenues of the states out of the Consolidated Fund of India, and any other matter referred to by the president in the interests of sound finance".

Mr. B.K. Madan was the economist member of the Commission.

The Commission submitted the final report on December 31, 1952 and its recommendations were accepted by the Government *in toto.*

The Commission kept three considerations in view :

"Firstly, the additional transfer of resources from the centre must be such as the centre could bear without undue strain on its resources, taking into account its responsibility for such vital matters as the defence of the country and the stability of its economy;"

"Secondly, the principles for distribution of revenue between the States and the determination of the grants-in-aid must be uniformly applied to all the States;"

"Lastly, the scheme of distribution should attempt to lessen the inequalities between the States."

Income tax

The Commission prescribed 2.75 per cent of the net proceeds of income tax as attributable to part C states. Out of the balance, it recommended, states should get 55 per cent (instead of 50 per cent obtaining then under the Niemeyar Award as modified by Deshmukh Award after partition of India).

The Commission recommended that 20 per cent of the divisible pool of income tax should be distributed among the States on the basis of their relative collections and 80 per cent on the basis of their population as enumerated by the 1951 Census. It further recommended that the share attributable to part C states be fixed at 2.75 per cent of the net proceeds as against 1 per cent in the past.

Jute export duty

The Commission recommended that grants in lieu of export duty on Jute (Article 273 of the Indian Constitution, 1950) should be fixed at Rs. 120 lakhs for W. Bengal, Rs. 75 lakhs each for Bihar and Assam, and Rs. 15 lakhs for Orissa. The recommendations were accepted by the president.

Union excise duties

The Commission suggested that the revenue from excise duties on three commodities, namely, tobacco, matches and vegetable products should be shared. It further recommended that 40 per cent of the net proceeds of these duties should be assigned to the States; the share of each State to be in accordance with the percentage of its population bears to the total population of part A and B states. These recommendations which were to be effective, from April 1, 1952 were accepted by the Parliament.

The question of distribution of additional excise duties, tax on railway passenger fares and estate duty does not arise since they were non-existent then.

Grants-in-aid

The Commission considered that needs of all the States by standards and criteria which it applied without discrimination to all the States. However, it took into account the backwardness of the states in recommending grants under Article 275 (1).

Compiler

FIRST-FISCAL COMMISSION (INDIA) (*International economics)

The Government of India appointed the First Fiscal Commission in 1921 under the Chairmanship of Sir Rahimtoola "to examine with reference to all the interests concerned with tariff policy of the Government including the question of the desirability of adopting the principle of Imperial Preference".

The Commission found that the country possessed the necessary infrastructure to develop the industries and recommended discriminating protection. An industry was to fulfil the following three conditions known as the Triple Formula to become eligible for protection :

1. The industry must possess natural advantages such as abundant supply of raw materials, cheap power, sufficient supply of labour, and a large home market ;

2. The industry must be one which without help of a protective tariff would not be able to develop at all or would not develop rapidly enough to serve the interests of the country; and

3. The industry must be eventually able to face foreign competition without traiff assistance.

Besides the above, many other minor conditions were laid down by the Commission.

The Commission recommended the appointment of a Tariff Board to investigate into the claims of industries applying for protection and for recommending their case to the Government if it thought fit.

The Government accepted the recommendations of the Commission in 1923 and appointed the first Tariff Board in 1924 in connection with the iron and steel industry.

Compiler

FIRST FIVE-YEAR PLAN (INDIA) (*Economics of planning)

India's First Five-Year Plan commenced on April 1, 1951 albeit the draft-outline was presented in July 1951 and the final report was published in December, 1952.

Out of a total expenditure of Rs. 1960 crore in the public sector, investment component was of the order of Rs. 1560 crore. Investment in the private sector was to the tune of Rs. 1800 crore. Thus the total investment in both the sectors was Rs. 3360 crore.

Agriculture was accorded highest priority. The plan allocated the agriculture including irrigation Rs. 861 crore i.e. 44 per cent of the total plan outlay. Next to agriculture in importance came transport and communication.

"The First Five-Year Plan had a two-fold objective. Firstly, it aimed at correcting disequilibrium in the economy caused by the war and the partition of the country. Secondly, it proposed to initiate simultaneously a process of all round balanced development which would ensure a rising national income and a steady improvement in the living standards over a period".

The capital-output ratio was assumed at 3:1. The average gestation period and the growth of population were assumed at three years and 1.25 per cent per annum respectively.

The national income increased over the plan period by 18 per cent as against the target of 11 per cent. The per capita income registered an increase of 11 per cent. The food production increased by 11 million tonnes as against the target of 7.6 million tonnes. Sixteen million acres of land was brought under irrigation. The industrial production recorded an increase of 40 per cent. During the plan period 380 miles of new railway lines were laid down.

The First Plan was a success in the sense it was "instrumental in bringing about a marked improvement in the level of production, both in agriculture and industry."

However, First plan—a dwarfish and just a rehabilitation plan—neglected industry and attached too much importance to financial resources rather than physical resources.

The plan ended happily on March 31, 1956.

Compiler

FIRST LAW OF GOSSEN (*Theory of value)

The law of diminishing marginal utility is also known as Gossen's first law after H.H. Gossen (1810-58), a German economist. It states, "The amount of one and the same enjoyment diminishes continuously as we proceed with that enjoyment without interruption until satiety is reached".

Compiler

FIRST LAW OF PURCHASE (*Theory of value)

Another name for the law of demand. It states; under the same conditions of demand, the quantity of a commodity which will be purchased tends to vary inversely with its price.

Albert L. Meyers

FIRST LAW OF SUPPLY (*Theory of value)

Under the same conditions of supply, the quantity offered for sale will vary directly with the price.

Albert L. Meyers

FISC (*Public finance)

Public treasury.

P.E. Taylor

The word is derived from Latin *fiscus* meaning money basket or treasury.

It is the name bestowed by Romans on treasury.

Compiler

FISCAL (*Public finance)

The word fiscal, adjective of fisc, is generally used to refer to all matters pertaining to the public treasury, its revenues, and its expenditure.

Anatol Murad

FISCAL POLICY (*Public finance)

A policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment.

Arthur Smithies

Fiscal policy refers to the principles and methods by which government determines its revenues and expenditure.

Anatol Murad

The shaping of the tax-structure and the determination of the volume of tax revenues and the volume and direction of government

expenditures for the explicit purpose of attaining one or more specific objectives, such as full employment.

Raymond P. Kent

Governmental action that affects the economy, in the form of government expenditure, taxation and debt management.

W.W. Haines

Any operations on the budget of the government, which are deliberately aimed at promoting stabilization objectives.

Allen, Buchanan and Colberg

Fiscal policy refers literally to all practices adopted by the Treasury in the receipt and expenditure of funds.

R.M. Havens, J.S. Henderson and D.L. Crammer

Let us define pure fiscal policy as measures which involve tax and/or expenditure action, but which leave the structure of claims unchanged.

Richard A. Musgrave

With the great depression and the publication of Keynes's *General Theory* and Hansen's *Fiscal Policy and Business Cycles,* the interest of professional economists shifted from public finance to "fiscal policy".

Fiscal policy was the use of the government's taxing, and spending powers to maintain full employment without inflation.

It introduced into the literature the concept of flexible budgetary policy, with budgets deliberately unbalanced to offset inflationary or deflationary tendencies in the economy. Later emphasis was placed on "built-in-flexibility" of the fiscal system.

In contrast to the method of public finance, the method of fiscal policy being highly aggregative, deals with the level of income, output, employment, inevstment, consumer spending, taxation, government spending etc. for the economy as a whole.

Benjamin Higgins

FISCAL YEAR (*Public finance)

Financial year.

See *Financial year.*

Compiler

FISHER, IRVING (1867-1947) (*History of economic thought)

"America's greatest scientific economist." (J.A. Schumpeter). He was essentially an econometrician standing on par with William Petty of England and Francois Quesnay of France. Fisher's greatness lies in his originality and in his applicable solutions to a number of vexed economic problems. He expounded the celebrated transaction version of the quantity

theory of money; put forward the time preference or impatience theory of interest; developed indifference curve analysis that included income and price lines and that spoke of inferior and superior goods; found out a method of measuring marginal utility of income; drew a subtle line of demarcation between complementarity and substitutability; developed marginalism earning the reputation of being the most original among the marginalists; succinctly compressed a great deal of modern demand theory; originally proposed the "commodity dollar plan" which the American Government adopted as its official policy; propounded the (non-stockastic) statistical approach to the index number theory; coined the famous term "money illusion" and developed that notion; introduced the novel concept of "marginal efficiency of capital's which he termed as marginal rate of return over cost; suggested reflation as a measure to counteract depression; attributed business cycles to "dances of the dollar", and for the first time suggested, that income was different from capital. Fisher was a pure logician. He wrote: "The economist should go no further than is serviceable in explaining economic facts. It is not his business to build a theory of psychology".

Irving Fisher an intellectual colossus, wrote numerous great books most of which have been translated into different world languages. They include:

1. *Mathematical Investigations in the Theory of Value and Price* (1892),
2. *The Nature of Capital and Income* (1906),
3. *The Rate of Interest* (1907),
4. *Elementary Principles of Economics* (1910),
5. *The Purchasing Power of Money* (1911),
6. *Why is the Dollar Shrinking?* (1914),
7. *Stabilizing the Dollar* (1920),
8. *The Making of Index Numbers* (1923),
9. *The Money Illusion* (1928),
10. *The Stock Market Crash* (1930),
11. *Theory of Interest* (1930),
12. *Booms and Depressions* (1932),
13. *Inflation* (1933),
14. *After Reflation, What?* (1933),
15. *Stable Money* (1934),
16. *100% Money* (1935).

Mathematical Investigations in the Theory of Value and Price which was Fisher's doctoral dissertation written at the young age of 25 years, is a "masterly presentation of the Walrasian groundwork. His *Nature of Capital and Income* which was much admired by Vilfredo Pareto, besides presenting the first economic theory of accounting is considered by Schumpeter as the basis of modern income analysis. In his *Rate of Interest*

republished in 1930 as *The Theory of Interest* Fisher advanced the time preference theory of interest. In his *Purchasing Power of Money* (1911), Fisher formulated the celebrated equation MV=PT which he called equation of exchange. According to Fisher, the value of money is, *ceteris paribus,* determined by volume of money.

Born on February 27, 1867 in Saugerties, New York, Fisher died at the ripe age of 80 years in New York city on April 29, 1947. He graduated from Yale University in 1888 and took his Ph.D. degree in 1891. He began his career as a tutor in mathematics in 1890 in Yale University. In 1893, he was promoted as assistant professor. After additional studies for two years in Paris and Berlin, mathematician Fisher turned to economics. In 1898, he became Professor of Political Economy. By rigidly applying mathematics to economic theory, Fisher was successful in making economics as more exact science. He was the first President of the Econometric Society found in 1930.

In 1935 Fisher retired from Yale, stopped writing too and started taking interest in business matters and in promoting economic legislation at the federal and state levels till the end of his mundane journey.

Fisher was not just an economist; he was actively involved in many reform movements. He served as the president of:

1. American Association for Labour Legislation (1915-17),
2. National Institute of Social Sciences (1917),
3. American Economic Association (1918),
4. Eugenics Research Association (1920),
5. Pro-League Independents (1920),
6. Econometric Society (1931-33), and
7. American Statistical Association (1932).

Fisher also founded the American Eugenics Society, the Vitality Records Office, the Stable Money Association and the Index Number Institute.

Compiler

FISHER EQUATION (*Monetary economics)

The famous equation of exchange—MV=PT. It is so called because it was formulated by the American economist Irving Fisher.

In the equation:

M= Quantity of money,

V = Velocity of circulation of money (i.e. the number of times that each unit of money is used during a given period),

P = Price level,

T = The volume of trade,

The equation which is one of the three versions of the quantity theory of money states that the quantity of money multiplied by the number of times that each unit of money is used during any period of time equals the price level of goods multiplied by the volume of goods bought during the same period.

A.W. Stonier and D.C. Hague

Since the publication of professor Irving Fisher's *The Purchasing Power of Money* (1911) the famous formula PT=MV therein propounded has held the field in the world at large as against any other variety.

Lord Keynes

(See also *Cash-transactions approach and Quantity theory of money*—Compiler).

FISHER PLAN (*Monetary economics)

Professor Irving Fisher of Yale university (U.S.A.) after the 1914-18 World War suggested a method of using index numbers for the purpose of stabilizing curreney. His proposal was that a country's currency should be convertible into gold (i.e. the government must be prepared to buy and sell gold on demand). The rate of exchange between gold and money would vary with an index number so that gold value of money would decline as the general price level rose and would rise in value as the general price level fell. In this way people would purchase gold when the prices of commodities were rising and the money supply in circulation would be reduced and *vice-versa.*

FIVE-BILLION SDRs LOAN (*International economics)

On Monday night, November 9, 1981, the International Monetary Fund approved the 5-billion SDR loan (equivalent then to 5.75 billion U.S. dollars or Rs. 5,234 crores) to India to enable her to meet her current balance of payments problems, created by higher import costs of oil and other items. It is the biggest nominal loan from the IMF to any member. Further it is the biggest single loan negotiated by the Government of India. It created controversy in India which in the words of Prof. P.R. Brahmananda, was as big as the size of the loan itself. The West Bengal Government spearheaded by Dr. Ashok Mitra, economist turned Finance Minister, lambasted the Government for having gone for the loan. Dr. Mitra commented, "it is a crying shame that the Government of India, representing a nation of 700 million, is reluctant to demonstrate even a modicum of the courage which small nations have shown". Prof. Brahmanand, otherwise a perpetual critic of the Government, defended the loan. In the 22-nation Board of Executive of the I.M.F. U.S.A (originally) was the solitary member to oppose the release of the loan by abstaining from voting.

On August 17, 1981, the Union Finance Minister Mr. R. Venkataraman informed the parliament that the Government was negotiating with the IMF for drawing an amount of 5 billion SDR under the extended fund facility.

In 1981-82, India drew SDRs 900 million in three instalments. On July 10, 1982 (Second year) the IMF approved loan of SDRs 1800 million (about $ 1950 million). This will be drawn in four instalments. The third and final year balance of SDR 2300 million will be available in the period from July 1, 1983 to the end of the extended arrangement. Half of the 5-billion SDR loan will be at 6.25 per cent interest and the other half at commercial rate. The average rate of interest would work out between 9 per cent and 10 per cent. India has a quota of SDR 1717.5 million and she can borrow up to 450 per cent of her quota.

Compiler

FIXED CAPITAL (*Theory of value)

Durable instruments of production.

George N. Halm

Building machines etc.

Sir D.H. Robertson

Goods in use, which are only capable of giving up gradually their full yield of use or enjoyment.

Lord Keynes

That which exists in a durable shape and the return to which is spread over a period of corresponding duration.

John Stuart Mill

The factories, the equipment by which the commodities are produced.

Briggs and Jordan

Factories, houses, roads, machinery, ship-yard etc.

E.T. Nevin

Karl Marx distinguishes between variable and constant capital; and between fixed and circulating capital.

Marx calls the machines "fixed capital" in contradistinction to "circulating capital" in the form of raw and auxiliary materials.

George N. Halm

FIXED COSTS (*Theory of value)

Those costs which do not vary with output; they will be the same if output is one unit or one million units.

Richard G. Lipsey

The costs which do not vary with the size of firm's output.

Frederic Benham

The costs which remain constant as a total over a considerable range of output. These costs are often called overhead costs.

Albert L. Meyers

Costs which are independent of output and which must be incurred whether output is large or small. These costs cannot be avoided if the firm is to remain in business at all and include such payments as rent, rates, insurance maintenance costs, debenture interest, many administrative expenses and the like.

A.W. Stonier and D.C. Hague

Those payments that continue at a constant total amount whether production levels are high or low, indeed, even when production temporarily ceases.

Havens, Henderson and Crammer

They are referred to also as overhead, burden, indirect and supplementary costs.

Fairchild, Buck and Slesinger

Fixed costs + Variable costs = Full costs.

D.S. Watson

Fixed costs are defined as costs whose magnitude does not vary with the level of output, at least within some range. For example, the rent of a factory may be the same whether the factory is going full blast or running at half capacity (but once demand exceeds the factory's capacity, rental becomes a variable cost if a second factory is put into operation). Similarly the cost of an automobile licence is the same whether the car is used to travel 5,000 or 30,000 miles in a year. The special features of a fixed cost are: (1) that it all comes in one big lump once it is decided to enter on the operation, but (2) after it is incurred a further expansion in output makes no difference in its magnitude.

Total combined cost = total variable cost + total fixed cost.

William J. Baumol

FIXED DEPOSITS (*Monetary economics)

Deposits received for a fixed period or certain agreed period of notice. These deposits which earn interest are termed "time deposits or liabilities" in America.

A. K. Basu

FIXED FACTORS OF PRODUCTION (*Theory of value)

(There are some factors which can be readily varied with the change in output. For instance labour, raw materials, etc. Such factors are called variable factors). On the other hand there are factors such as capital equipment, building, top management personnel which cannot be so readily varied. It requires a comparatively long time to make variations in them. Such factors are called fixed factors. The quantity of fixed factors remains unaltered in the short run. In the long run all factors become variable.

H.L. Ahuja

FIXED FIDUCIARY SYSTEM OF NOTE-ISSUE (*Monetary economics)

This system was inaugurated by the English Bank Charter Act of 1844 in England. It prevails in Great Britain, Norway and Japan.

Rajnarain Mathur

A system under which the Central Bank is permitted to issue notes up to a certain fixed limit without the backing of gold reserves. This uncovered limit is called fiduciary, but it is backed by Government-debts or securities though not by gold coins. As soon as this limit is exceeded, it must be backed by 100 per cent reserves in gold.

This system has been adopted in Great Britain which permitted note-issue to the limit of £ 14 million without gold backing under the Bank Charter Act of 1844. The limit was subsequently increased to £ 260 million in 1928, to £ 300 million in 1939 to £ 1250 million in 1944 and £ 2025 million after 1956, to meet the currency demand of changing circumstances. The fiduciary system is variable with the permission of the Treasury and Parliament.

The system was in vogue in India up to 1920. It is also called partial-fiduciary system.

A.K. Basu

The method ensures safety but makes the note-issue inelastic.

Compiler

FIXED INCOMISTS (*Monetary economics)

Persons whose incomes are fixed by law or custom.

R.S. Sayers

Wage-earners and rentiers largely represent the fixed income group.

Compiler

FIXED MAXIMUM SYSTEM OF NOTE ISSUE (*Monetary economics)

This system prevailed in France between 1870 and 1928. It also prevailed in England and Japan.

According to this system, there is no fixed relationship between the note circulation and the amount of metallic reserves. The law prescribes a maximum limit of note-issue which cannot be exceeded, no matter what the amount of reserves may be.

Rajnarain Mathur

Under this system, the Government fixes the maximum or ceiling limit up to which the monetary authority can issue paper notes with or without the backing of metallic reserves.

Lord Keynes considered the system, the best of all the methods of note issue.

M.G. Vaish

FLATION (*Monetary economics)

It refers to that situation in an economy when both inflation and deflation are conspicuous by their absence. Thus flation means a period of price stability.

M.L. Seth

FLEXIBLE EXCHANGE RATES (*International economics)

Fluctuating or floating exchange rates as opposed to stable or fixed exchange rates.

The best position is one in which the rate of exchange neither freely fluctuates nor is absolutely pegged but which alters within limits according to circumstance, thereby promoting international trade and economic development of the country. This is exactly the IMF plan.

Compiler

FLIGHT OF CAPITAL (*International economics)

Temporary movement of funds due to disturbed economic or political conditions in any part of the world.

Raymond Bye

Such funds are termed "Hot money".

Compiler

FLOATING CAPITAL (*Theory of value/Industrial economics)

The command over goods, to a given money value, which can be applied to any purpose is often described as free or floating capital.

Alfred Marshall

Capital which is capable of being used for alternative purposes, e.g. money, fuel, etc.

Compiler

FLOATING DEBT (*Public finance)

It consists of ways and means advances obtained by a state government from the Reserve Bank of India and the Short-term loans secured from the State Bank of India.

National Council of Applied Economic Research (India).

Short-term debt.

Hugh Dalton

In the technical sense there is no such thing as a "floating debt" of the federal government (U.S.A.).

P.H. Taylor

FLOATING RATE (*International economics)

This means what it says—a country's currency value dictated by what people are prepared to pay for it at any given time, thus preventing sizeable losses of national reserves by a country seeking to "artificially" support its money's standing.

Dominick J. Coyle

Freely fluctuating exchange rate.

Miles Fleming

FLOATING RATES WITH OFFICIAL INTERVENTION (*International economics)

A type of policy under which the authorities do not peg exchange rates but do intervene, at times, to buy and sell the nation's money in exchange markets to influence the behaviour of its exchange rate.

L.V. Chandler

FLOOR PRICE (*Agricultural economics)

A statutorily fixed minimum price payable to the farmer while he sells his farm products.

It is designed to achieve equity to the farmer, against his exploitation by the traders.

Compiler

FLOW (*Theory of value)

Also known as capital quantity, the term implies any quantity which is measured as so many units, per unit of time—dollars per year, bushels per day, gallons per second etc.

K.E. Boulding

FLOW OF MONEY (*Monetary economics)

The demand for goods in terms of money.

G. Haberler

FOLDING MONEY (*Monetary economics)

Paper currency.

P.A. Samuelson

FOOD AND AGRICULTURE ORGANISATION (FAO) (*Agricultural economics)

The FAO, a special agency of the United Nations Organisation was established in Quebec in 1945. Its headquarters, which had initially been in Washington D.C., was transferred to Rome in 1956. Regional Offices operate at Accra, Addis Ababa, Bangkok, Geneva, Cairo, Mexico city, New Delhi, Rio de Janeiro, Santiago (Chile) and Washington.

With a view to improving production and distribution of agricultural commodities and food, the Organisation was entrusted with the following tasks: the collection and study of relevant documentation; the promotion of more credit facilities, international commodities agreements and technical assistance. The FAO's activities have been developed mainly in the latter field.

M.A.G. Van Meerhaeghe

FAO of the UNO—A permanent institution devoted to proving that there is not enough food in the world.

Economist, dated 23-8-1966

F.A.O. was proposed by the U.N. Conference on Food and Agriculture held at Hot Springs, Virginia in May 1943. An interim Commission formulated a constitution for the organisation which was adopted by a later conference held at Quebec in November 1945. This later conference established the F.A.O.

The constitutional purposes of the Organisation are: (i) to raise the levels of nutrition and standards of living of the peoples, (ii) to secure improvements in the efficiency of the production of all food and agricultural products, (iii) to better the conditions of rural populations, (iv) and thus to contribute towards an expanding world economy.

The functions of the F.A.O. are: (i) to collect, interpret and disseminate information on nutrition, food and agriculture and to promote national and international action with respect to scientific and economic research relating to these topics; (ii) to conserve natural resources; (iii) to adopt policies for the provision of adequate agricultural credit.

The F.A.O., in short, is devoted to the problem of feeding teeming millions who suffer from undernutrition and malnutrition.

Compiler

FOOD CORPORATION OF INDIA (FCI) (*Agricultural economics/ Economic history)

Established on January 1, 1965, the Corporation is headquartered at New Delhi. It has regional offices in the capitals of the Indian States.

Besides the above, it has district offices in important centres. The top officer is designated as Chairman. It employes over 12,000 persons.

Compiler

The main functions of the Corporation are: (i) to undertake purchase, storage, transport, distribution and sale of foodgrains and other foodstuffs; (ii) to promote the production of foodgrains; and (iii) to set up or assist in the setting up of rice mills, flour mills and other such undertakings for processing foodgrains and other foodstuffs.

It has become the sole agency of the Central Government for state trading in foodgrains since April 1, 1969. It is playing a vital role in the price support measures of the Government.

India

FOOD CROPS (*Agricultural economics)

Cereals—rice, wheat, millets (jowar and bajra), barley, maize etc.—and pulses—gram, masur, arhar etc.

The term food crops is contradistinguished from cash or commercial crops which include sugarcane, cotton etc. (The other types of crops are plantation crops—e.g. rubber, coffee etc. and fibre crops—e.g. jute, cotton etc.)

Compiler

FOOD PROBLEM (*Agricultural economics)

It refers to the problem of regular supply to all of nutritious food in adequate quantities at reasonable prices.

Compiler

FOODGRAINS ENQUIRY COMMITTEE (INDIA) (*Agricultural economics)

It was appointed by the Government of India under the chairmanship of Mr. Asoka Mehta in June 1957 to review the food situation and to make necessary recommendations. Its report was published in November, 1957. In the light of its recommendation, the Government accepted in April, 1959 the scheme of state trading and agriculture.

Compiler

FOODGRAINS POLICY COMMITTEE (INDIA) (*Agricultural economics/Economic history)

It was appointed in 1966 under the chairmanship of B. Venkatappiah to examine the issue of food prices in the context of the wider canvas of a national food policy.

It recommended steps to minimise disparities in prices as between deficit and surplus states and keeping prices stable at reasonable levels.

The major recommendations included: (i) procurement both by surplus and deficit states on the basis of a minimum grade levy on

producers, (ii) control over inter-state movements to facilitate procurement and keep prices at a reasonable level, (iii) a system of public distribution to ensure equitable sharing, and (v) building up of a buffer stock to provide against difficult years.

Alak Ghosh

FORCED SAVING (*Monetary economics)

The expression 'forced saving' was first used by the late Sir Dennis H. Robertson in his thesis on banking policy and price level.

When prices of commodities rise without increase in money incomes (wages), people consume less and are forced to save more. This forced diversion of resources from consumption to investment is forced saving.

The concept is generally applicable to inflationary situation.

Yojana

It has been used to indicate the extra-saving created by the transfer of resources and incomes from creditor to debtor, from rentier to state, from wage-earner to employer as a result of inflation.

Professor Francesco Vito uses the expression "forced savings" for what is usually called "corporate saving". If a business firm or company fails to distribute its entire profits to the share-holders, this may mean that the latter have been "forced" to save against their will.

Gottfried Von Haberler

The rise in prices forces people to reduce the volume of current goods and services that they consume, and produces the same effect as saving. This is sometimes called "forced saving".

In order to avoid any possibility of confusion of terms, we had better call it "forced abstention."

Geoffrey Crowther

An involuntary reduction in consumption due to reduced purchasing power. It may be caused by corporate saving, government saving or inflation.

W.W. Haines

Thornton called it—saving arising from "defalcation of revenue". Bentham called it "forced frugality". Malthus dubbed it "fictitious capital". Mill labelled it "forced accumulation". Since Mill, it has been called "enforced saving" by Wicksell, "automatic stinting" or "imposed lacking" by D.H. Robertson, and "real levies" or "doctoring of contracts" by Pigou. All these writers agreed about the meaning of the doctrine, at least in monetary aspects.

Ricardo was reluctant to accept the thesis.

The doctrine of forced saving was one of the many theoretical contributions of the Bullionist controversy. The central idea is evry

simple: suppose the extra cash flows into the hands of capitalists with a relatively low propensity to consume. The rise in prices will then alter the composition of total output in favour of investment and cause the rate of interest to decline permanently. This, of course, is the Cantillon Effect. The Classical economists were, therefore, perfectly aware that certain kinds of cash injection can "create capital" and thus permanently lower the rate of interest. All such exceptions come under the heading of "forced saving", a possibility generally admitted by all the classical economists.

Mark Blaug

FORD FOUNDATION (*Economics of development)

An American agency that grants financial and technical assistance to the developing countries. Between 1951—65, the Foundation's assistance to India's programmes amounted to $ 90,000,000. The assistance programmes include those in rural development, intensive agricultural improvement, family planning, industrial training, development management training, education, economic and social research, urban planning and others.

Compiler

FOREIGN AID (*Economics of development)

Foreign assistance. It may be either financial or technical, developmental or military. The term usually refers to aid from one country to another country. The latest slogan is : "Foreign trade but not foreign aid."

Compiler

FOREIGN BILL OF EXCHANGE (*Monetary economics)

As distinguished from domestic bill of exchange, it is an order to pay money, drawn against a foreigner, payable in the foreigner's money and payable in his country.

A.L. Meyers

A negotiable instrument drawn by a creditor upon someone in a foreign country who owes him money.

Raymond Bye

FOREIGN EXCHANGE (*International economics)

(In singular), the system or process of converting one national currency into another and of transferring money from one country to another.

(In plural), the means of payment in which currencies are converted into each other and with which international transfers are made, also the activity of transacting business in such means.

Paul Einzig

An explanation of the means by which the mutual indebtedness of nations is paid off and cancelled.

In a narrower sense, the principles on which foreign bills or other instruments of exchange are created and dealt in and on which their price is fixed.

In actual practice, rate of exchange.

Norman Crump

The system by which commercial nations discharge their debts to each other.

Encyclopaedia Britannica

The business of buying and selling orders for the payment of foreign money at a foreign point.

Escher

The art and science of international money-changing.

Hartley Withers

Foreign money; money denominated in a foreign monetary unit.

W.W. Haines

FOREIGN EXCHANGE CONTROL (*International economics)

Measures to change directly demand and supply on the foreign exchange market.

Bertil Ohlin

Measures which replace part of the equilibrating functions of the foreign exchange market by regulations alien to the pricing process.

George N. Halm

(See also *Exchange control*—Compiler).

FOREIGN EXCHANGE MARKET (*International economics)

The market for foreign currencies.

J.L. Hanson

FOREIGN EXCHANGE RATE (*International economics)

The ratio of exchange in transactions taking place in the foreign exchange market. It is, in other words, the price of one currency in terms of the other.

Kenneth E. Boulding

External value of monetary unit (currency).

R.S. Sayers

(See also *Exchange rate*—Compiler).

FOREIGN EXCHANGE RESERVE SYSTEM OF NOTE ISSUE (*Monetary economics)

A system under which the Central Bank is authorised to hold a part of its reserve in foreign exchange, including foreign currency, deposits in foreign banks and bills.

A.K. Basu

FOREIGN LENDING (*International economics)

The increment of home-owned capital situated abroad, excluding gold.

Or

The unfavourable balance of transactions on capital account, i.e., the excess of amount of our own money put at the disposal of foreigners through the net purchase by our nations of investments situated abroad over the corresponding amount expended by foreigners on the purchase of our investments situated at home.

J.M. Keynes

FOREIGN LOAN (*International economics)

External or foreign assistance or aid.

Compiler

FOREIGN TRADE (*International economics)

As opposed to domestic or home or international or intra-national trade it refers to trade of a country with the rest of the world. It is also called international or world trade.

Compiler

FOREIGN TRADE LEAKAGE (*International economics/Keynesian economics)

It means that employment at home increases less than it would if all spending were for products produced within the domestic economy.

Dudley Dillard

FORM UTILITY (*Theory of value)

A utility that a goods possesses because of its form.

G.W. Forster and M.C. Leager

The other forms of utility are : place utility and time utility.

Compiler

FORMAL AGREEMENTS (*Industrial economics)

Express undertakings between the various business units concerning trade conditions or prices, insofar as they do not mean any collective control of the quantity of output to be marketed.

Such agreements are also referred to as "open price associations" or "price combinations" or "trade conditions agreements".

S.C. Kuchhal

FORMAL INCIDENCE OF TAX (*Public finance)

In economics we are concerned with two concepts of the falling of taxes on tax-payers, or as it is called, the incidence of taxes. In the first place there is the statistical calculation of the way in which the revenue collected from any particular tax over a given period (usually a year), namely, the difference between the factor cost and the market price of the product on which the tax is assessed, is distributed between citizens (for convenience grouped according to their income levels); or, alternatively, the proportion of people's income which goes *not* to provide the incomes of those who furnish them with goods and services, but is paid over to governing bodies to finance collective satisfactions. The result of this calculation may be called the *Formal Incidence* of the tax.

Mrs. Ursula K. Hicks

Mrs. Hicks distinguishes between *effective* and *formal* incidence.

She holds that the concept of formal incidence tells us nothing about the resulting adjustment process, but I wonder whether this is the case. Does not the allocation of formal excise incidence to the consumer involve a hypothesis of shifting or an assumption that incidence operates through the income-uses rather than the earnings side of the budget?

Richard A. Musgrave

FORMALISTIC ECONOMICS (*History of economic thought)

The economics of the Classicists and Neo-classicists as opposed to the descriptive economics of the Historical School.

Compiler

FORUM OF FREE ENTERPRISE (INDIA) (*Economics of development)

An organisation founded by the late Mr. A.D. Shroff (and Murarji J. Vaidya) in July 1965. The Forum believes that "Democracy is an essential element in the Indian way of life. Free Enterprise is an integral part of it and as such it should be permitted to play its legitimate role in our national life".

It "is a non-political and non-partisan organisation. It aims to educate public opinion in India on economic issues, specially on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essary competitions, and other means as befit a democratic society".

Its office is at Bombay.

Compiler

FORWARD EXCHANGE (OR CONTRACT) (*International economics)

Transaction when neither payment for the currency nor delivery of the same is made until after the lapse of an agreed period.

Norman Crump

(In singular) the system or process of operating in foreign exchanges for future delivery.

(In plural) foreign exchanges bought and sold for future delivery against payment on delivery at a pre-arranged date.

Paul Einzig

The arrangement of a contract by which the bank agrees to buy or sell at a rate designated at once, a block of foreign currency which is to be delivered at some future time.

Rajnarain Mathur

A device (in inconvertible paper currency system) in which the person who has to make or recover payment in foreign money at some future date enters into a contract with a bank and settles the rate of exchange now only in order to avoid the difficulty arising in future due to fluctuating currency rates.

K.K. Dewett

FORWARD EXCHANGE MARKET (*International economics)

Market in which sellers and buyers agree at one point of time to deliver and accept delivery of claims against some nation's money at a stipulated date in the future. The price or exchange rate is determined at the time of agreement.

Lester V. Chandler

Market which deals in current commitments to buy and sell currencies for delivery and payment at some prescribed time in the future. It may be considered as market distinct from (though directly connected with) normal foreign exchange market which deals in current or "spot" transactions.

Sanjaya Lall

Meetings or systematic communications by telephone or telex between foreign exchange dealers and brokers for the purpose of transacting wholesale business in foreign exchanges and in Euro-currencies.

Paul Einzig

FORWARD EXCHANGE RATE (*International economics)

There are two types of exchange rates, viz., spot rate of exchange and forward rate of exchange. The forward rate of exchange refers to the price at which a transaction will be consumed at some specified time in future.

M.C. Vaish

The rate at which domestic currency can be exchanged for foreign currency in the forward market.

Compiler

FORWARD SHIFTING OF TAX (*Public finance)

Forward shifting as opposed to backward shifting is the most common approach to tax shifting. It is said to take place when the producer of a goods is able to shift the money burden of the tax completely on someone else, say the wholesaler, who may in turn pass it on to the retailer who ultimately passes it on to the final consumer. In forward shifting, the price is so raised or the quality and quantity of the commodity are so reduced that the entire amount of the tax is shifted from the original tax-payer to someone else.

Andley and Sundharam

FOSTER AND CATCHING'S THEORY OF BUSINESS CYCLES (*Business cycles)

An extreme form of under-consumption theory of trade cycles advanced by W.T. Foster and W. Catching of the U.S.

Its contention is that savings of the community when invested in productive processes, are bound to bring about depression through "dilemma of thrift".

The argument of the theory may be paraphrased as under:

Every society saves a part of its income (it does not spend all of its income). "Some of this saving is carried out by industry itself; a part is retained to add to productive equipment". Some part of that which is distributed in incomes is also saved. These savings come back to industry *via* banks and security issues, and are invested—they are used by the industry for buying productive equipment (i.e. the means to produce more goods).

"The volume of consumer and business saving" in the ultimate "create a deficiency" in the purchasing power "in respect to goods offered for sale". There arises the 'dilemma of thrift'. Banks are unable to save the situation. They are unable to further expand the credit since the "state of reserves calls a halt to the process of expanding credit". Money supply is reduced. Over-investment, under-consumption, crisis and depression—dilemma of thrift.

Adapted from J.A. Estey

FOUR PHASES OF BUSINESS CYCLE (*Business cycles)

Recovery, prosperity, recession and depression are the four phases of a business cycle. J.A. Estey terms them revival, expansion, recession and contraction. W.C. Mitchell, styles the phases of a business cycle as expansion (upward movement), recession, contraction (downward course) and recovery.

Lord overstone depicts the course of a trade cycle thus: "state of quiescence—next improvement—growing confidence--prosperity—excitement—overtrading—convulsion—pressure—distress—ending again in quiescence.

Some speak of Five phases, *viz.*, depression, recovery, full employment, boom and recession.

Compiler

FOUR TYPES OF ECONOMIC THEORY (*Economic methodology)

(i) Theory of Rational Action, (ii) Historical Economics, (iii) Institutional Economics, and (iv) Macro and Micro Economics.

Anatol Murad

FOURIER, CHARLES (1772-1837) (*History of economic thought)

Father of French Socialism. Born at Besancon, Fourier started a small brokerage, but being disgusted with business dishonesty and malpractices, he abandoned it. He died a bachelor.

His outstanding economic ideas, *inter alia* include: (i) the organisation of phalanstere, (ii) integral co-operation, (iii) attractive labour and (iv) back to land movement.

His publications include :

(i) *The Theory of Four Movements* (1808),
(ii) *Treatise on Domestic and Agricultural Association* (1822), and
(iii) *The New Industrial World* (1829).

The general system he introduced came to be known as Fourierism.

Compiler

FOURTH FINANCE COMMISSION (INDIA) (*Public finance)

The Fourth Finance Commission appointed by the President of India under Article 280 (i) of the Indian Constitution (1950) on May 5, 1964, under the chairmanship of Dr. P.V. Rajamannar, the retired Chief Justice of Madras High Court, submitted its Report on August 12, 1965. Dr. Babatosh Datta was the economist member of the Commission. The main recommendations of the Commission which was asked to go into the entire question of centre-state financial relations, were accepted by the Government. Under the Commission, the States were to get additional resources amounting to Rs. 780 crore at the existing levels of taxes. The Commission's recommendations were to cover a period of five years commencing from April 1, 1965.

Income tax

The Commission raised the share of the States to 75 per cent of the divisible pool of income tax from 66.6 per cent as recommended by the Third Finance Commission. It recommended (endorsed and restored the formula of the First and Third Finance Commissions) that the States' share should be distributed 80 per cent on the basis of population and 20 per cent on the basis of collection.

Union excise duties

"The Commission recommended that 20 per cent of the net proceeds of all Union excise duties, including the duties which might be taken up for levy in the coming quinquennium, except regulatory duties, special excises and duties and cesses earmarked for special purposes should be distributed among the States." (R.N. Bhargava) (Under the Third Finance Commission, the States were to get 20 per cent of the net proceeds of the Union duties of excise on 35 commodities).

It said that "we consider that it would be adequate if the factor of relative economic backwardness is given weight equivalent to 20 per cent. For the other factor, namely, population, we would recommend weight equivalent to 80 per cent". The Commission retained the share of the Union Territories at 1.1 per cent as under the Third Commission.

Additional duties of excise

"With respect to the distribution of the proceeds from these duties, the Commission recommended that out of the net proceeds 2.04 per cent be retained by the Government of India as attributable to Union Territories. Of the remaining 97.03 per cent of the net proceeds, the guaranteed amount may be paid first to the States and the balance be distributed amongst them on the basis of equal weightage to sales tax collections and population of respective States". (R.N. Bhargava) ("In 1957, the State Governments agreed to withdraw sales tax on mill-made textiles, sugar and tobacco and in lieu of it the Union Government levied additional excise duties on these commodities, the net proceeds therefrom being distributed amongst the States.")

Estate duty

The Commission recommended that the net proceeds of estate duty (which was first levied in 1953) on property other than agricultural land, except those attributable to the Union Territories, should be handed over to the States. It raised the share of the Union Territories from one per cent to 20 per cent. (The Fifth Finance Commission raised it to 3 per cent.)

Tax on railway passenger fares

(The tax was imposed in 1957. The Act imposing this tax was repealed from April 1, 1961 and the tax was merged in passanger fares in accordance with the recommendations of the Railway Convention Committee (1960). Thereafter the Government decided to make to the States grants in lieu of railway passenger fare).

The Fourth Commission agreed that the distribution of this grant be on the basis of compensation.

Grants-in-aid

The First Commission had recommended that budgetary needs of the States should be an important criterion for determining the amount of

grant required by the States. It also had argued that grants might be given for broad national purposes in the national interest. The fourth Commission felt that the above principles were still valid and in working out grants-in-aid to the States, it gave due regard to the considerations of the expenditure devolving on the States for servicing of their debt and the scope for economy consistent with efficiency. Accordingly, it recommended annual grants of Rs. 121.89 crore to 10 States (including Nagaland). (The States excluded on the basis of revenue surplus, were Bihar, Gujarat, Maharashtra, the Punjab, U.P. and W. Bengal).

Compiler

FOURTH FIVE-YEAR PLAN (INDIA) (*Economics of planning/Economic history)

Old Fourth Plan (1966-71)

The draft outline of the Fourth Plan was presented to the Parliament by the planning minister, Shri Asoka Mehta on 29 August, 1968. The outline proposed a 'minimum plan' of a total outlay of Rs. 23,750 crore. This included Rs. 13,600 crore in the public sector investment, Rs. 2400 crore for public sector outlay. The investment proposed in the private sector was at Rs. 7,750 crore.

The plan aimed at an annual growth rate of 5.5 per cent. The national income was estimated to increase from Rs. 19,000 crore in 1965-66 to Rs. 29,500 crore in 1970-71. Per capita income was to go up from Rs. 448 to Rs. 532 at 1965-66 prices.

The objectives set out were self-reliance, price stability, enlargement of rural incomes, export promotion, import substitution, augmentation of the supply of essentials and limitation of the growth of population.

Agriculture and industry were accorded highest priority.

New Fourth Plan (1969-74)

But the National Development Council which met in New Delhi on December 1 and 2, 1967 under the Chairmanship of the then Prime Minister, (late) Mrs. Indira Gandhi, decided that the Fourth Plan should begin from April 1, 1969 instead from April 1, 1966. The period 1966-69 was to be covered by three Annual Plans.

Dr. D.R. Gadgil, the then Deputy Chairman of the newly constituted Planning Commission declared that the New Fourth Five Year Plan would commence on 1st April, 1969. The old Fourth Plan was given up due to uncertain foreign aid and inadequacy of internal resources.

(While the First Plan aimed at "Self sufficiency in foodgrains" the Second at "the socialistic pattern of Society", and the Third at "self generating economy",) the Fourth Plan had three main objections, viz., (1) move towards self-reliance, (2) growth with stability, and (3) regional balance aiming at even distribution of the benefits of development.

The strategy of the plan to achieve the above broad objectives aimed at: (1) a growth of national income of 5.5 per cent per annum, (2) bringing about economic stability, (3) doing away with foreign trade, (4) achieving social justice and equality, (5) reducing income disparities, (6) creating more employment opportunities, (7) attaining national minimum, and (8) reorganising economic institutions.

A total outlay of Rs. 24,882 crore was envisaged for the Plan. Of this, public sector outlay was Rs. 15,902 crore and private sector investment Rs. 8,980 crore. In the public sector Rs. 13,655 crore were provided for investment and Rs. 2,247 crores for current outlay. The total investment for the creation of productive assets aggregated to Rs. 22,635 crore.

It is interesting to note that the Fourth Five Year Plan witnessed four Deputy Chairmen in (1) Asoka Mehta, (2) the late D.R. Gadgil, (3) C. Subramaniam and (4) the late D.P. Dhar.

Compiler

FRACTIONAL CURRENCY (*Monetary economics)

Coins.

P.A. Samuelson

FRACTIONAL-RESERVE BANKING (*Monetary economics)

The issue of demand deposits in excess of the amount of reserves held against them.

Walter W. Haines

FRAGMENTATION OF HOLDING (*Agricultural economics)

A phenomenon of small holdings being scattered in different parts of an area.

A.B. Das and M.N. Chatterji

FREE BANKING (*Monetary economics)

The principle that any group could establish a bank under a general incorporation law by meeting prescribed requirements.

W.W. Haines

FREE CAPITAL (*Industrial economics)

The right of the people to take unlimited quantities of metal to the mint to have it coined without profit to the government and to receive the coin in return.

Raymond P. Kent

The right of an individual to bring bullion to the mint and receive an equivalent amount of gold or silver coins.

W.W. Haines

System in which the public is allowed to offer bullion for being converted into coins.

Rajnarain Mathur

A system by which the government is legally required to coin for any person any amount of a particular standard metal which he brings to the mint.

Fairchild, Buck and Slesinger

FREE ECONOMY (*Economic devolopment)

Taking a broad view, the economic system which is based on three major principles; (1) personal liberty, (2) private property and (3) individual initiative and control of enterprise.

Fairchild, Buck and Slesinger

The term 'free economy' used in contrast to 'closed economy' is another name for capitalist economy. It is also called free market economy.

Compiler

FREE ENTEPRISE SYSTEM (*Economic development)

It has sometimes been described as the profit system altough the term "profit-loss system" would be more descriptive.

Allen, Buchanan and Colberg

Another name for capitalism.

Compiler

FREE EXCHANGE MARKET (*International economics)

A market for foreign exchange in which the government does not interfere in any way.

W.W. Haines

It is the opposite of exchange control.

Compiler

FREE FLOATING RATES (*International economics)

A policy under which there is no official pegging of exchange rates and no official intervention to influence their behaviour; they are determined by the market forces of supply and demand.

Lester V. Chandler

FREE GOODS (*Theory of value)

The goods which are not appropriated and are afforded by Nature without requiring the effort of man.

Alfred Marshall

The goods which need not or cannot be economized.

Anatol Murad

Those that are so plentifully supplied by nature and that no human effort is required to obtain them.

Albert L. Meyers

Goods whose supply is unlimited.

G.W. Forster and M.C. Leager

Free goods are the opposite of economic goods.

Compiler

FREE MARKET (*Theory of value)

A state of affairs in which the consumer can buy as much of each commodity as he thinks fit.

Sir Dennis H. Robertson

Market in which there is no rationing of goods and no official control of prices.

Fairchild, Buck and Slesinger

FREE MARKET ECONOMY (*Economic development)

The free market economy is not a system of *laissez faire.* It differs from a *laissez-faire* economy in following respects:

(1) it is an abstract system rather than a real one;
(2) it is an ideally competitive economy; and
(3) the factors of production are moved without friction from one industry to another. The free market economy, in other words, represents *a model* of an unplanned economy, which is characterised by the following assumptions:

(i) The factors of production (labour, land, capital) are privately owned and production takes place at the initiative of private enterprise.
(ii) Income is received in monetary form through the sale of services of the factors of production and from profits of private enterprise.
(iii) The members of the free market economy have freedom of choice with respect to consumption, occupation, saving and investment.
(iv) The free market economy is not planned, controlled, or regulated by the government. The government satisfies collective wants, but it does not compel with private firms, nor does it tell the people where to work or what to produce.

A study of the free market economy can prove useful but will not help evaluate today's market economies because the assumptions are too abstract.

George N. Halm

FREE ON BOARD (f.o.b.) (*International economics/Commerce)

The name given to the system of paying for goods shipped from or to another country when the amount is sufficient only to cover the value of the goods and excludes insurance and freight.

A. Seldon and F.G. Pennance

FREE PLANNING (*Economics of planning)

Planning based on public opinion. In this, the draft plan is put before the nation to have opinions, criticism and suggestions of individuals and organizations. After this final plan is prepared.

A.B. Bhattacharya

It is in vogue in India and is termed as democratic decentralised planning.

Compiler

FREE PORTS AND FREE ZONES (*International economics)

The enclosed free trade areas usually located in maritime cities within the territory of a country with a protective tariff.

International Encyclopaedia of Social Sciences

FREE TRADE (*International economics)

That system of commercial policy which draws no distinction between domestic and foreign commodities, and, therefore, neither imposes additional burdens on the latter nor grants any special favours to the former.

Adam Smith

It implies a commercial policy under which commodities may pass political frontiers without the payment of duties or under which duties are either charged only on commodities not produced at home offset by corresponding duties on the part of the supply which is produced at home.

International Encyclopaedia of Social Sciences

It is the opposite of protection.

Compiler

Advocacy of free-trade policy was the main practical purpose the Classical writers had in mind.

Mercantilism stood for free trade. The English advocates of free trade claimed perfect generality for their argument. For them it was absolute and eternal wisdom for all times and places; he who refused to accept it was a fool or a crook or both.

J.A. Schumpeter

FRENCH PLANNING (*Economics of planning)

Indicative planning.

See *Indicative Planning.*

Compiler

FREQUENCY DISTRIBUTION (*Statistics)

The term is used in dual sense; it refers both to finite collection of phenomena of the same general type but varying from case to case, which are tabulated and arranged in groups and to the properties of the objective reality which give rise to such phenomena.

Harold Hotelling

FRICTIONAL UNEMPLOYMENT (*Economics of labour)

The unemployments due to workers having wrong skills or being located in the wrong places to get jobs. Frictional unemployment exists when there is full employment.

Abba P. Lerner

Temporary unemployment due to temporary changes in demand or in circumstances such as the weather.

F. Benham

Unemployment which exists when men are temporarily out of work because of imperfections in the labour market. These imperfections may be the immobility of labour, the seasonal nature of some work, shortages of materials, breakdowns in machinery requirement, ignorance of job opportunities etc.

Dudley Dillard

Technological unemployment is a special case of frictional unemployment.

G.N. Halm

FRIEDMAN, MILTON (b. 1912) (*History of economic thought)

America's greatest and foremost conservative libertarian economist and the winner of 1976 Nobel prize for economic science.

Dr. Milton Friedman of Chicago University was awarded the eighth Nobel economics prize for his "achievements in the fields of consumption analysis, monetary history and theory, and for his demonstration of the complexity of stabilization policy".

Friedman proclaims, "Keynesian economics doesn't work". He has earned the distinction of being the most relentless contemporary advocate of Fisherian quantity theory, while restating the quantity theory of money he observed, "There is no other empirical relation in economics that has been observed to recur so uniformly under so wide a variety of circumstances as the relation between substantial changes over short periods in

the stock of money and in prices; the one is invariably linked with the other and is in the same direction; this uniformity is, I suspect, of the same order as many of the uniformities that form the basis of the physical sciences".

Professor Friedman along with Professor L.J. Savage expounded what is called Friedman-savage hypothesis which explains both the tendency to buy insurance and the tendency to buy lottery tickets. Friedman is also the author of what is known as Marshall-Friedman demand curve which Professor J.R. Hicks describes as marginal valuation curve. One of the assumptions made by Dr. Alfred Marshall in his demand theory is that the prices of unrelated goods remain the same. Since this created a dilemma, Friedman replaced it by the condition that the prices of all related goods move inversely to the price of X so as to keep real income constant along the demand curve for X, and thus avoided a serious pitfall in the Marshallian treatment of utility and demand.

Friedman, a traditional redicalist, heavily attacked Chamberlin's theory of monopolistic competition; presented a treatment of capital theory in strict Walrasian terms, and carried on Chicago tradition in monetary theory established by H.C. Simons and L.W. Mints. He revived methodological logomachy in economics by contending that most traditional criticism of economic theory had missed the target by scrutinising assumptions, instead of testing, implications. The validity of economic theory, Friedman argued, is to be tested not by the descriptive realism of its premises, but by the accuracy of its predictions with which it is concerned.

Friedman a monetarist, realizing the impregnable position of Keynesian fiscal prescription, wrote desperately, "Nothing is harder for men than to face facts that threaten to undermine strongly held beliefs."

Friedman, "a Classcist with the courage of his convictions", is an uncompromising advocate of free competition. He has opposed such government functions as farm price supports, securities and exchange controls. He has made radical suggestions of abandoning social security and replacing the whole welfare and anti-poverty programme by a simple reverse income tax, a cash subsidy for those citizens in the lowest income group. He originated the now widely respected and accepted idea of negative income tax wherein the State makes payments to certain level as a means of ensuring that no one falls below the poverty line. It is the basis of Tax Credit System.

According to Friedman the main cause of economic depressions and inflations in the U.S. lies in the acceptance and application of Keynesian 'inept' fiscal manipulations to the detriment of feckless monetary policy.

In 1961 Friedman along with David Meiselman correlated consumption expenditures with both the stock of money and investment back to 1897. They concluded that the relation of consumption outlay to the stock of money was much closer than the relation of consumption to investment. They also showed that there was stability in the relationship between stock money and income. The two conclusions stirred heated and enduring

controversy among economists. In 1962 he made it clear that what he advocated in his *Capitalism and Freedom* was not a return to unbridled *laissez-faire* but rather a turning away from a course leading towards the 'beehive'—towards a society in which individuals will lack individuality and work automatically as even the queen bee does in a hive. He counselled abandonment of such generally accepted institutions as federal regulatory agencies, the public school system and licensing boards for occupations and professions.

Friedman is of the opinion that recessions are usually preceded by retardations in money supply and severe depressions by serious and sustained decline in the money stock. He opposed use of tax manipulation or spending control as contracyclical economic weapons. In 1964 he called for annual 5 per cent reductions in taxes over a five year period. He reiterates his basic belief: "Freedom is the major objective in relations among individuals" and "the preservation of freedom requires limiting narrowly the role of Government and placing primary reliance on private property, free markets and voluntary arrangements".

To Friedman the market place is the determining factor in every economic situation. He insists that inflation is always and everywhere a monetary phenomenon. He advocates flexible exchange rates.

Dr. Friedman's published works include:

1. *Consumer Expenditures in the United States* (with others) (1939)
2. *Taxing to Prevent Inflation* (with Carl Shoup and Ruth P. Mack) (1943)
3. *Income from Independent Professional Practice* (with S. Kuznets) (1946)
4. *Sampling Inspection* (with others) (1948)
5. *Essays in Positive Economics* (1953)
6. *Studies in the Quantity Theory of Money* (Edited) (1956)
7. *A Theory of Consumption Function* (1957)
8. *A Programme for Monetary Stability* (1959)
9. *Capitalism and Freedom* (1962)
10. *Price Theory: A Provisional Text* (1962)
11. *A Monetary History of the U.S., 1867-1960* (with A.J. Schwartz) (1963)
12. *Inflation: Causes and Consequences* (1963)
13. *The Balance of Payments: Free versus Flexible Exchange Rates* (with R.V. Roosa) (1967)
14. *Dollars and Deficits* (1968)
15. *Optimum Quantity of Money and Other Essays* (1969)
16. *Monetary Statistics of the U.S.* (with A.J. Schwartz) (1970)
17. *A Theoretical Framework of Monetary Analysis* (1972)
18. *Social Security: Universal or Selective* (with W.J. Cohen) (1972) and .
19. *An Economist's Protest* (1972)

Milton Friedman was born of Jeno Saul Friedman, a merchant and Sarah Ethel (Landau) Friedman, in Brooklyn, New York on July 31, 1912. His parents were immigrants from Austria-Hungary. He has three sisters. In 1968, the five feet three inches tall Friedman weighed 145 pounds. Friedman is married to the former Rose Director. The Friedmans have one son and one daughter. Friedman's recreations are tennis and wood-working.

Raised in Rahway, New Jersey, Young Friedman graduated at the age of 16 from Rahway High School. At Rutgers University he majored in economics, won a mathematical prize, did copy editing on the campus newspaper and worked at odd jobs to supplement a state scholarship. In 1932 he took his B.A. degree at Rutgers and began graduate work in economics on a scholarship at the Chicago University. The thesis for his M.A. degree earned at the age of 21 was captioned *Factors Influencing Railroad Stock Prices.* Friedman rémained at Chicago as a Research Assistant until 1935. At the mid thirties, he began to write to the leading journals, viz., *Quarterly Journals of Economics, The Journal of Political Economy, The Review of Economic Studies and The Journal of the American Statistical Association.*

From 1935 to 1940 Friedman was in Washington D.C. as an economist with two federal bodies, the National Bureau of Economic Research and the National Resources Committee. From 1937 to 1940, he worked as a part-time lecturer at Columbia University. In 1940-41, he was visiting professor of economics at the University of Wisconsin. From 1941 to 1943 he served as principal economist in tax research with the U.S. Department of the Treasury.

For two years beginning in 1943, Friedman was at Columbia University working on his Ph.D. degree and serving as associate director of statistical war research at the University. In 1946 Columbia University awarded him Ph.D. degree for his *Income from Independent Professional Practice.* The same year he joined Chicago University as an associate professor of economics and in 1948 he was elevated as professor. Since then he has continued there as a powerful member of Chicago school. In 1968 he became Paul Snowden Russell Distinguished Service Professor of Economics at that University.

In 1964 Dr. Friedman was the chief economic adviser to Republic Senator Bary Goldwater who made an unsuccessful bid for American presidency. He was also a close economic adviser to President Richard M. Nixon. Friedman was the president of the American Economic Association in 1967. In 1951 he won the coveted John Bates Clark Medal.

Complier

FRIEDMAN-SAVAGE HYPOTHESIS (*Theory of value)

Milton Friedman and L.J. Savage in the article "The Utility Analysis of Choices Involving Risk" published in 1948 in *Journal of Political*

Economy, advance a hypothesis that explains why the same groups of people both buy insurance and engage in gambling, why they both avoid and choose risks. Stated briefly and without regard for its refinements, the Friedman-Savage hypothesis is that for most people, the marginal utility of income diminishes when incomes are below some level, increases for incomes between the level and some higher level, and diminishes again when incomes are above the high level.

D.S. Watson

FRISCH, RAGNAR ANTON KITTIL (1895-1973) (*History of economic thought)

Norwegian winner of the first (1969) Nobel prize in economics.

Frisch introduced the terms, econometrics, micro-economics, macro-economics, macro-dynamics and isoquants; founded the Econometric Society and the journal *Econometrica*; and gave the modern standard definitions of statics and dynamics. He was at the same time, an econometrician, a statistical prodigy, a mathematical genius, a positive economist, a moralist and a spiritualist. He wrote, "The ultimate purpose of progress, in my opinion, is something far beyond an increase in living standards. It is cultural, spiritual and moral and it is a training in the philosophy of helping others." Transcending narrow regionalism, he strove for the maximization of global economic welfare.

Professor Frisch a versatile economist with mastery in theory of value, econometrics, economic development, economic planning, international economics and monetary theory was awarded along with Jan Tinbergen the 1969 Nobel prize for his growth-oriented theoretical and applied econometrics. Dr. Frisch advanced the concept of elasticity of calculus. His name is associated with static system. The notion of autonomy of a function or equation is due to him. While discussing pure competition, he coined the term "quantity adjuster." He dealt with the actual use of the notations in economics; termed the (duopoly) derivative $\frac{dx_2}{dx_1} = f(x_1)$ as "conjectural variation; reconstructed Marshall's theory of short-and-long run supply prices with the aid of current graphical techniques; attempted the statistical measurement of marginal utility; offered a rigorous synthesis of Wicksell's 'real' and 'monetary' theory of interest."

Dr. Frisch was a prolific writer with amazing diversity. Apart from his innumerable learned articles, Frisch is the author of :

1. *New Methods of Measuring Marginal Utility* (1932)
2. *Monopole-Polypole* (1933)
3. *Planning for India* (1960)
4. *Europe's Future in Figures* (1962)
5. *Theory of Production* (1965)

Ragnar Anton Kittil Frisch was born of Anton Frisch and Ragnar Fredrikke on March 3, 1895. He passed his university entrance examination in 1913 and obtained his university degree in economics at Oslo University in 1919. Between 1921 and 1923, he studied in France and England.

In 1925, Frisch became Assistant Professor at Oslo University and the following year he obtained Ph.D. degree. He spent his Rockfeller Foundation grant on his studies in the U.S.A., France and Italy during 1927-28. He became Associate Professor in Oslo University in 1928. The next year, he was promoted as Professor of Economics.

Dr. Frisch lectured at Yale and Minnesota Universities and the Sorbonne, Paris. In 1933, he became founder-editor of the celebrated journal *Econometrica.* Later he was elevated as the chairman of the Editorial Board.

Professor Frisch was a member of : (1) the Norwegian Academy of Sicence (1931), (2) International Statistical Institute (1937), (3) Royal Humanitarian Science Society, Lund (1941), (4) Royal Swedish Academy of Science, Stockholm (1950) and (5) the American Economic Association (1948) and (6) the American Academy of Arts and Sciences. He was the first Chairman of the U.N. Economic and Employment Commission; a United Nations Expert Commissioner in India (1954-55); Adviser on Development Planning, Italy (1957-64); Fellow of the Econometric Society (1937); Fellow of the Institute of Mathematical Statistics, U.S.A. (1947); Correspondent to the Royal Economic Society, England (1948); President of the Econometric Society (1949); Advising Member of the Academy of Human Rights (1953); Fellow of the Royal Statistical Society, London (1956); and Corresponding Fellow of the British Academy (1956).

Frisch was the recipient of Doctorates *Honoris causa* of the Stockholm School of Economics (1959), University of Copenhagen (1959), and University of Birmingham (1970). In 1967 the Queen's College conferred upon him the Doctorate in Science of the University of Cambridge. He was also appointed the foreign member of the American Philosophical Society. In 1955 he won the Joseph A. Schumpeter prize of Harvard University.

On January 31, 1973, Dr. Frisch breathed his last after making valuable and permanent contributions to the science of economics.

Compiler

FRONT-DOOR BUSINESS (*Monetary economics)

When the discount houses do business with the Central Bank at the penal rate, the procedure is said to be front-door business.

R.S. Sayers

FROZEN ASSETS (*Monetary economics)

When a bank's assets are largely in the form of real estate mortgages or in the form of claims not readily saleable or that cannot be sold immediately without serious losses, the bank is said to possess frozen assets.

Albert L. Meyers

FULL-BODIED MONEY (*Monetary economics)

Money whose value is not materially greater than that of its component stuff.

Sir Dennis H. Robertson

Money which has just as much value as a commodtty as it has money.

W.W. Haines

Full valued or natural money. When the value printed on them (coins) (or their face value) is equal to the value of the metal contained in them (or their intrinsic value), they are called full-bodied coins.

Rajnarain Mathur

FULL-CAPACITY GROWTH (*Economics of development)

The 'required' rate of growth to avoid long-run disequilibrium and unemployment and to insure the full capacity use of a growing capital stock.

Raja Chelliah

FULL COSTS (*Theory of value)

The business costs (i.e. total money expenses as computed by ordinary accounting methods) plus alternative or opportunity costs and normal profits of the firm.

The full costs of firm are conveniently divided into *variable costs* and *fixed costs.*

Full costs are relevant for the long-run.

D.S. Watson

FULL EMPLOYMENT (*Economics of labour/Economics of development)

Full employment means having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind and so located that the unemployed men can reasonably be expected to take them; it means by consequence, the normal lag between losing one job and finding another will be very short.

Lord William Beveridge

A state of affairs in which the number of unfilled vacancies is not appreciably below the number of unemployed persons, so that unemployment at any time is due to the normal lag between a person losing one job and finding another.

Nuffield College Statement

It does not mean a complete absence of unemployment. It means that the number of vacant jobs at a given time is greater than the number of unemployed. It means that the margin between the vacancies and the unemployed is very narrow; it means that the period between losing one

job and getting another at reasonable wages is very short. It is a condition under which a high and fairly stable level of employment exists.

F. Benham

A condition in which all who want to work and who are employable at the prevailing wage rates and salaries for their particular skills and abilities are working.

Sam Rosen

We may define it theoretically, as occurring when the elasticity of supply of output, in rssponse to increases in the supply of money (or alternatively in effective demand) is zero.

A. W. Stonier and D.C. Hauge

The condition where those who want to work at the prevailing rates of pay, can find work without undue difficulty.

Abba P. Lerner

It does not necessarily mean that every man and woman has a job. It means only that there are no more supplies of idle labour or idle capital of the sorts that are actually being demanded.

Geoffrey Crowther

A situation where there are more job openings than unemployed workers.

More commonly in the U.S. a situation where not more than five (or four or three) per cent of the work force is unemployed.

W.W. Haines

The term may be defined in various ways:

(a) Full employment exists when all people capable of working are working to the limit of their capacity.
(b) Full employment exists when there are more jobs to be filled than there are people looking for jobs. (This is practical and common sense definition).
(c) Full employment exists when employers can obtain additional labour only by raising real wage rates, that is when all people willing and able to work at prevailing wages are employed. (This is the most widely accepted definition).

Anatol Murad

Absence of involuntary unemployment.

Lord Keynes

Lord Beveridge defined it as a situation where there are more jobs than men. But other economists would consider this to be a state of over full employment.

J.L. Hanson

In discussing "Full" employment policies it is impossible to give a reasonably precise definition of full employment. Abba P. Lerner in his *Economics of Employment* suggested that full employment is reached when inflation begins. But price inflation begins very gradually and may even continue when employment falls. Similarly vague is William H. Beveridges (*Full Employment in a Free Society*) definition that full employment means "having always more vacant jobs than unemployed men". This definition points out that labour enjoys a seller's market under full employment, a situation that tènds to be inflationary. Bertil Ohlin explains that such a situation is not necessarily a blessing.

These considerations suggest that it may be better to aim for something less than "Full" employment.

G.N. Halm

That stage at which reasources in men and materials being put to optimal exploitation, there is no scope for further economic growth.

Compiler

FULL EQUILIBRIUM (*Theory of value)

The position in which average cost (A.C.), average revenue (A.R.), marginal cost (M.C)' and marginal revenue (M.R.) are equal to each other and price.

A.W. Stonier and A.C. Hauge

FULL EQUILIBRIUM OF INDUSTRY (*Theory of value)

An industry is said to be in full equilibrium when there is no tendency for the number of firms to alter. The profits earned by the firms in it are then normal.

Mrs. Joan V. Robinson

FULL GOLD BULLION STANDARD (*Monetary economics)

As distinguished from 'Limited gold bullion standard', it is a variant of gold standard, in which gold coinage is discontinued, gold coins no longer circulate and yet gold is bought by the government or the Central Bank of the country in unlimited amounts and at a fixed price. Other types of money are no more convertible into gold or gold coin at the option of their holders in any amount requested; gold is sold only in the form of bars of certain minimum weight.

This type of gold standard came into practice after the collapse of gold coin standard. It was adopted to economise gold. The indignant French peasants gave it the epithet "the rich man's standard."

L.V. Chandler

A currency system in which gold coins either form the whole circulation or else circulate equally with notes.

Geoffrey Crowther

FULL-LINE FORCING (*Theory of value)

Compelling buyers who wish his (monopolist's) products with poor substitutes to purchase also his products with good substitutes (as in block-booking of movies).

George J. Stigler

FUNCTION (*Mathematical economics)

In mathematical analysis we are concerned with variable numbers. The important thing about variable is not the way in which each varies by itself, but the way in which different variables are related to one another. Mathematical analysis, in short, is the study of relationships between variable numbers. A simple technical term is used to describe and symbolise a relationship between variables, the term "function."

The notion of the function is an abstract and general one but essentially very simple. In order to emphasize the simplicity of the notion, we can conveniently introduce at once a few examples of functions as applied in scientific work and everyday life. In applying mathematical analysis to actual phenomena, the physical and other quantities of the phenomena are expressed by variable numbers. Any osbserved or assumed relation between the quantities then corresponds to a functional relation between the variables. The following example make this clear.

The amount paid in inland postage on a parcel (in some monetary units) depends on, and is a "function" of the weight of the parcel (in pounds or a similar unit). In economics the amount of a certain commodity demanded by a given market is taken as connected in someway with the market price of the commodity that is demand is a "function" of price.

The idea of a function involves the concepts of a *relation* between the values of two variables and the *dependence* of one variable on the other.

A function may be either implicit or explicit. Further a function may be analytical or explicit or single valued or multi-valued, or increasing or decreasing or monotonic or symmetrical or linear or quadratic or algebraic or cubic or quartic.

Symbolically an implicit function relating two variables X and Y can be represented whatever its form may be by the notation.

$f(x, y)=O$.

If y is an explicit function of x of any form whatever, we can denote it by the notation.

$y=f(x)$.

R.G.D. Allen

FUNCTIONAL FINANCE (*Public finance)

The name applied by Abba P. Lerner to Keynesian notion of public finance.

Compiler

The purposeful manipulation of the government budget with a view toward achieving economic stabilization objectives.

Allen, Buchanan and Colberg

This refers to the system in which the government's fiscal policy is used as an instrument for stabilising the economy. The advocates of functional finance suggest a deficit in the budget in times of lagging business activity and a surplus in the budget in times of inflationary pressures.

M.L. Seth

The chief author and advocate of functional finance is Abba P. Lerner who rigorously holds that fiscal measures should be judged only by their effects. In his *Economics of Control* Lerner writes, "the way fiscal measures function in society may be called functional finance."

According to the concept taxation does not have as its chief objective the raising of revenue; the main object of monetary and fiscal measures is to stabilise the economy, at a high level of activity. In the words of A.R. Ilersic, "the primary purpose of taxation is to maintain full employment of all resources and to achieve a particular distribution of income and wealth, considered most desirable.

T.N. Sachdeva

The time-honoured objective of taxation is to raise revenue. The second objective is that of regulation or control while the third is the regulation of national income.

A small group of economists led by Mr. A.P. Lerner, carries this conflict in objectives to the extreme point where revenue considerations are ignored completely. They insist that public finance must be "functional finance" in which every other consideration must give way to that of maintaining an adequate level of national income. Lerner writes referring to the side of taxation functional finance, "the effects that the government should consider are primarily the effects on the public, in whose interest the government is supposed to be acting. The effects on the government are always relatively unimportant. Taxes should never be imposed simply because the government needs money. Economic transactions should be taxed only when it is though desirable to discourage these transactions. Individual should be taxed only to the extent that it is desired to make the tax-payer poorer.

Philip E. Taylor

FUNCTIONAL PLANNING (*Economics of planning)

When planning aims at strengthening or repairing a particular damaged structure, it may be called functional planning.

B.C. Tandon

Piece-meal planning. It aims at only repairing the economic difficulties through patch-work. It proposes to carry on the work of economic planning 'within the existing socio-economic framework.'

A.B. Bhattacharya

FUNDAMENTAL DISEQUILIBRIUM (*International economics)

A situation in which a nation is persistently incurring a deficit in its balance of international payments.

Raymond Bye

Term popularised by the International Monetary Fund.

Compiler

FUNDAMENTAL ECONOMIC PROBLEM (*Economics)

The process of selection and rejection.

S. Korteweg and E.A.G. Keesing

FUNDED DEBT (*Public finance)

A debt is funded when the Treasury borrows by sale of its securities to pay "floating" obligations such as for services or materials.

Philip E. Taylor

National debt which consists of loans on which the State pays an annual interest but does not undertake to repay the principal on any specified date.

Broadly speaking it is a long term debt undertaken for creating a permanent asset and the government normally makes arrangement about the mode and time of the payment.

Andley and Sundharam

The distinction is often drawn between funded and floating debt which is roughly equivalent to that between long and short-term debt. But the use of the terms is often confusing.

Hugh Dalton

FUTURES (*Industrial economics)

Dealing in *futures* means buying or selling for future delivery.

Anatol Murad

Essentially commodity bonds.

K.E. Boulding

FUTURES TRADING (*Industrial economics)

An aspect of organised speculation.

Compiler

It is the practice of buying and selling goods for future delivery at a price agreed upon sometime in advance.

Raymond Bye